

Employer Ascendancy and Macro Performance: *Analysis and Alternatives*



**Daniel J.B. Mitchell
and**



Christopher L. Erickson

**What a
GREAT IDEA!**



Seminar: April 22, 2003

Where do Great Ideas Come From?



Monopoly



Monopsony (in the labor market)

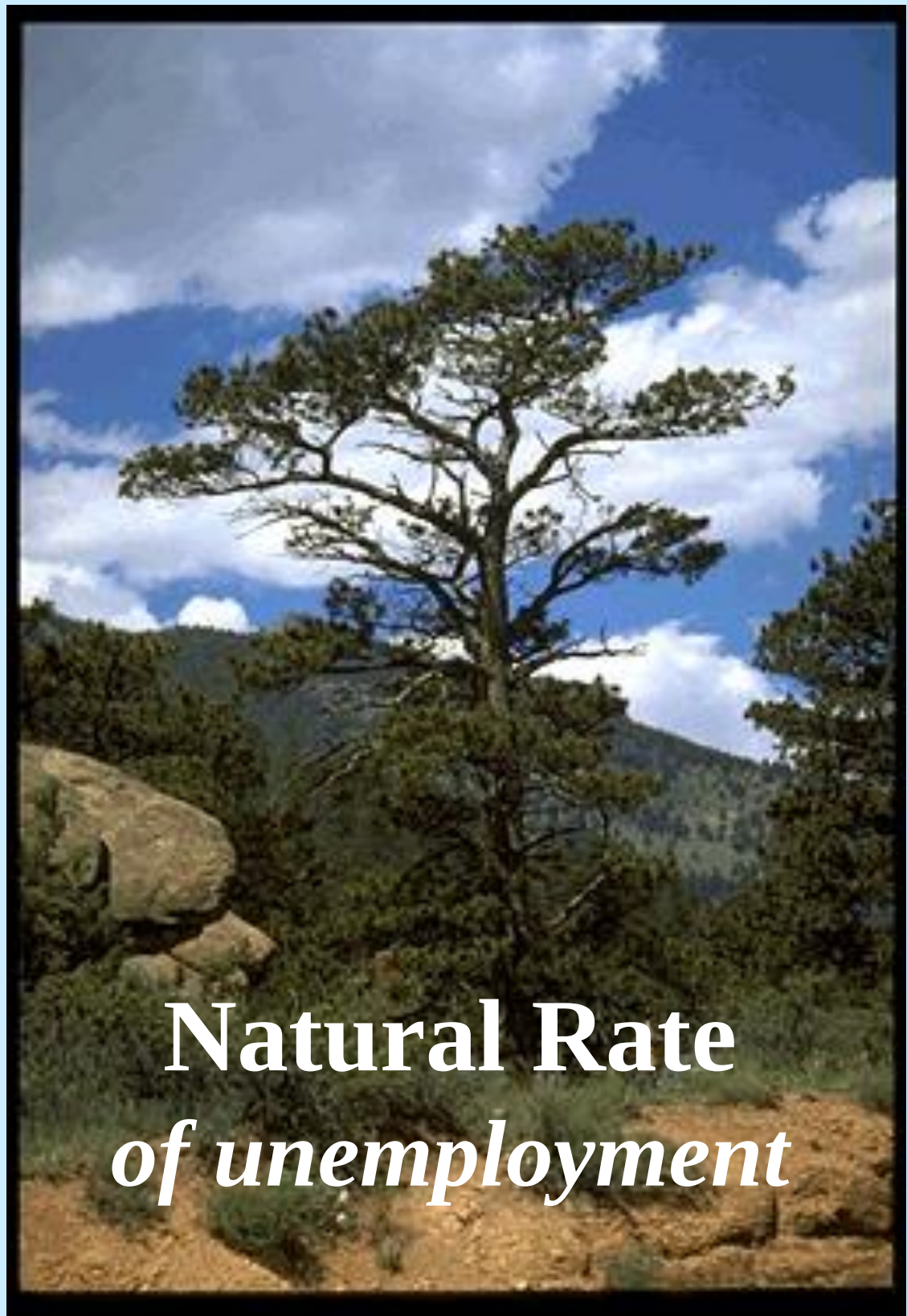


**Company
store**

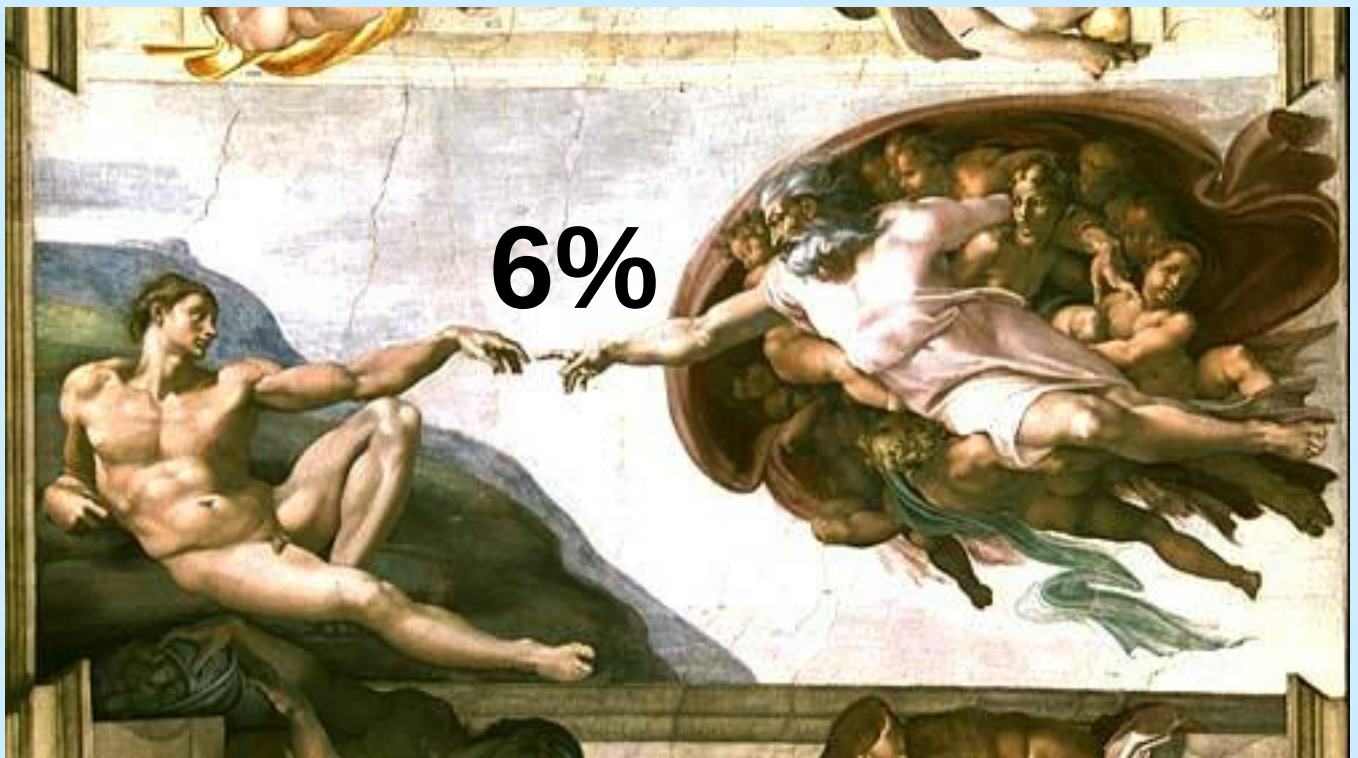
**Company
town**

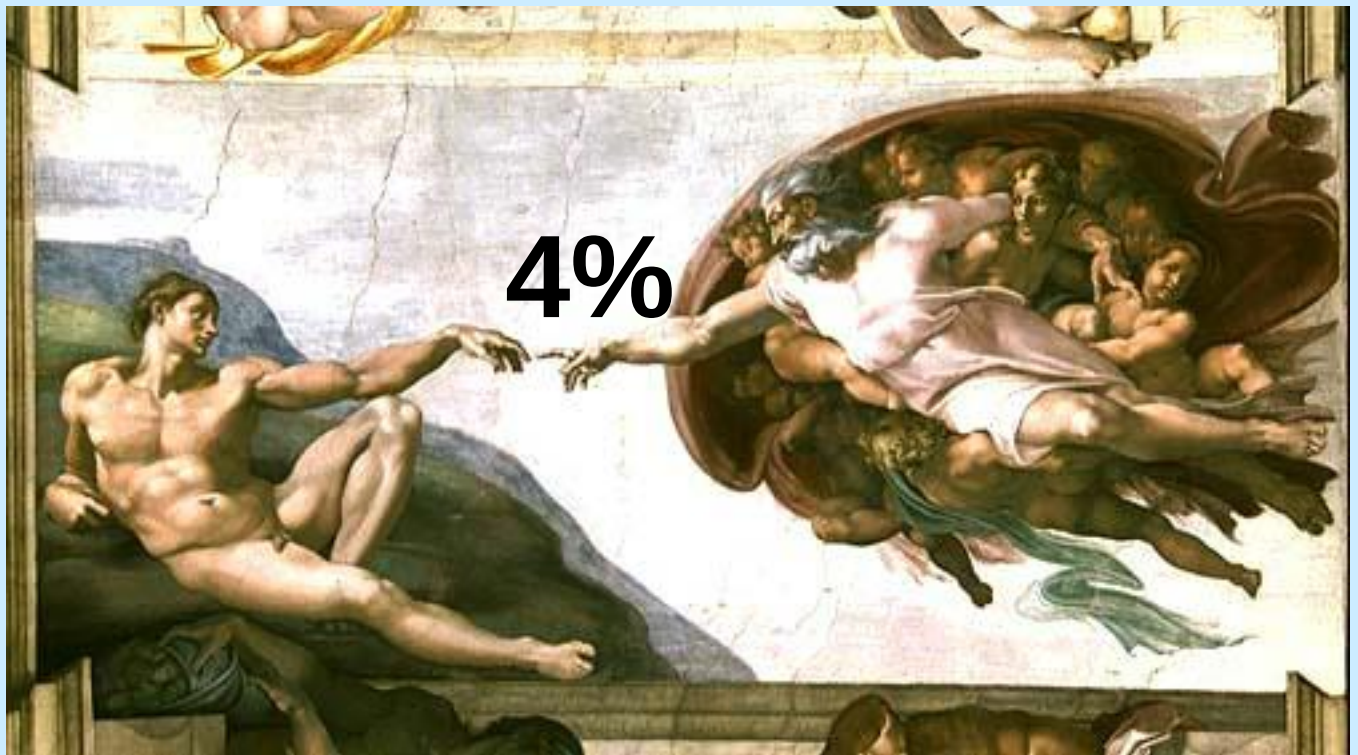
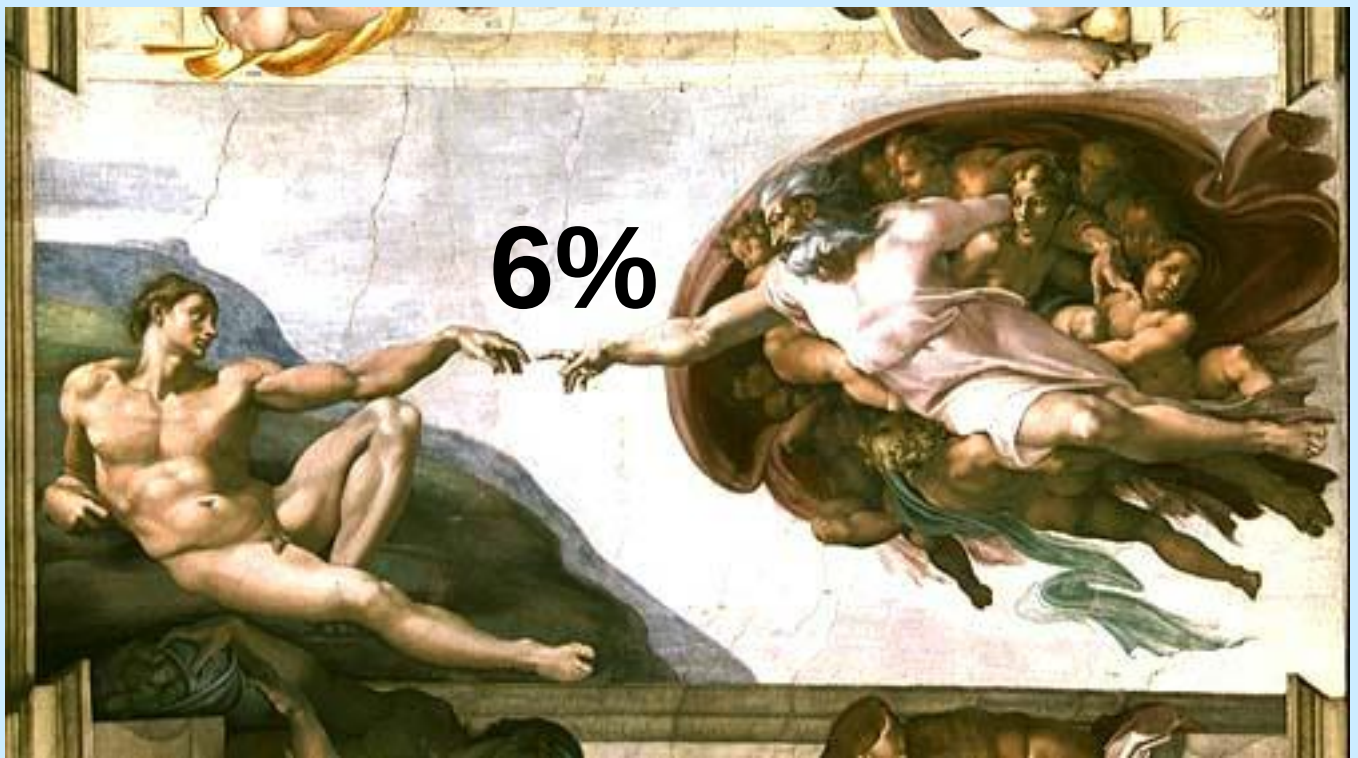


Peale, PA (late 19th century)



Natural Rate
of unemployment

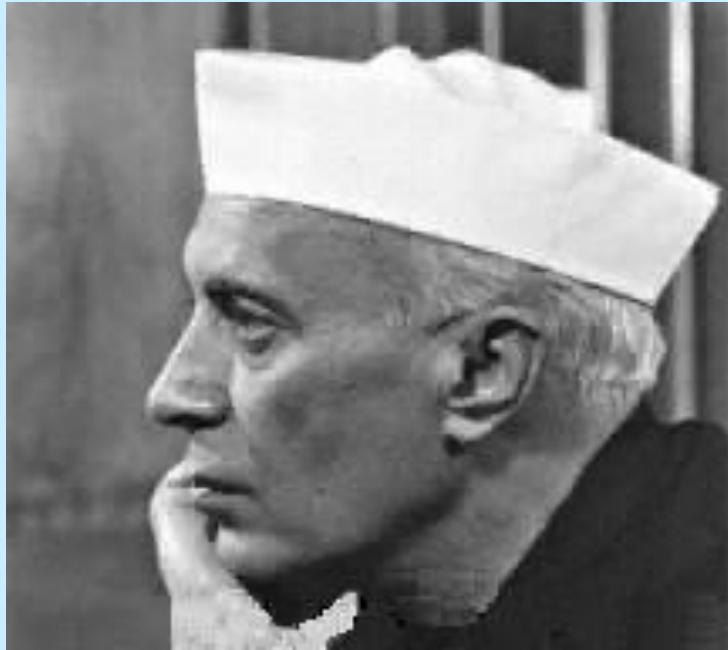




Non-Accelerating Inflation Rate of Unemployment (NAIRU)



**Not to be confused
with...**



Nehru

Richard Freeman and James Medoff



What Do Unions Do?
(Basic Books: 1984)

Monopoly “face”

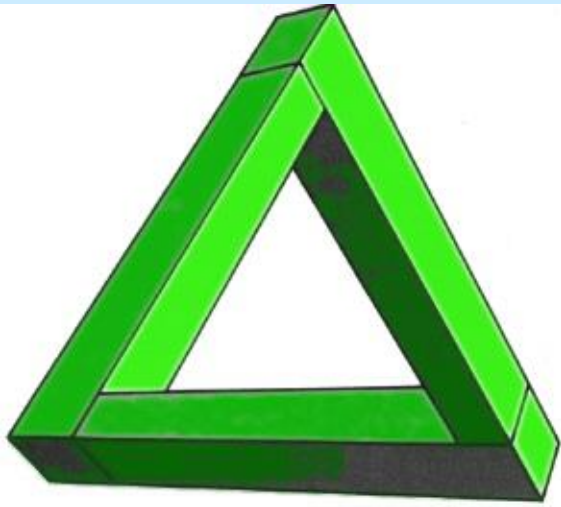
Voice “face”

Bruce Kaufman’s Challenge:
Do “something” on unions and
macroeconomics in response
to what F&M said back in
1984.



Mitchell: *Unions, Wages, and Inflation* (Brookings: 1980)

Problem with Kaufman's request:



1) No one writes about this topic any more since union sector is now roughly one tenth of the private sector. No recent literature to review.

2) F&M didn't say much about the macro side in their book. Books was mainly micro.



*That's the
story!*



LEONARDO DA VINCI
FLORENCE
1452-1519
MUSEO DEL RINASCIMENTO
FLORENCE

*Macro impact of
deunionization!*

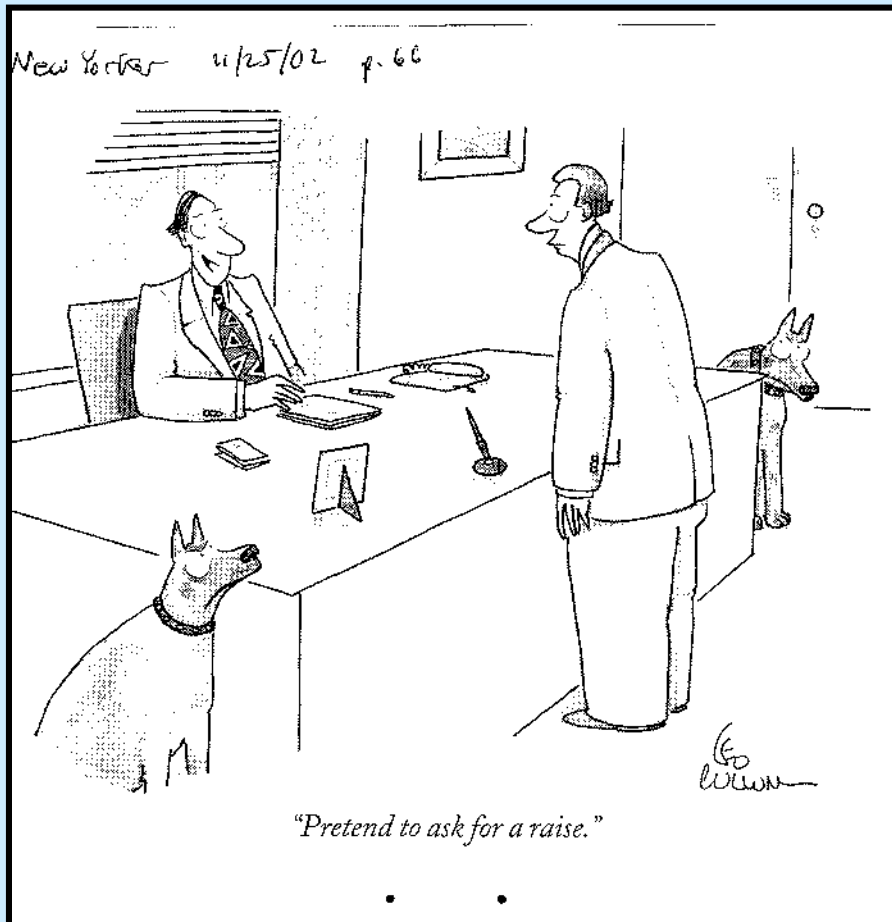


LEONARDO DA VINCI
1453-1519
FLORENCE, ITALY
MUSEO DELLE SCIENZE E DELLE
ARTI

What is a
“competitive”
labor market?



Employer Ascendancy and Macro Performance: *Analysis and Alternatives*



Daniel J.B. Mitchell
and



Christopher L. Erickson

Note: *A Work in Progress*



Comments and
suggestions welcome



Today's Agenda



- Point to some puzzling macro facts about performance of the US economy in the 1990s and 2000s
- Argue that changes in the labor market associated with decline of unions help explain these facts
- Note that macroeconomic policy makers in 1980s and 1990s did not develop a clear model linking macro facts to labor market changes
- Argue that a “competitive” labor market is in fact monopsonistic
- Argue that monopsony, combined with downward wage rigidity, has a stabilizing effect on macroeconomy
- Point to some costs imposed by monopsony



A Wagnerian Moment



Die Walküre: Siegmond meets Sieglinde

*Says who he isn't,
rather than who he is*



A Wagnerian Moment



Not saying business cycle is dead.

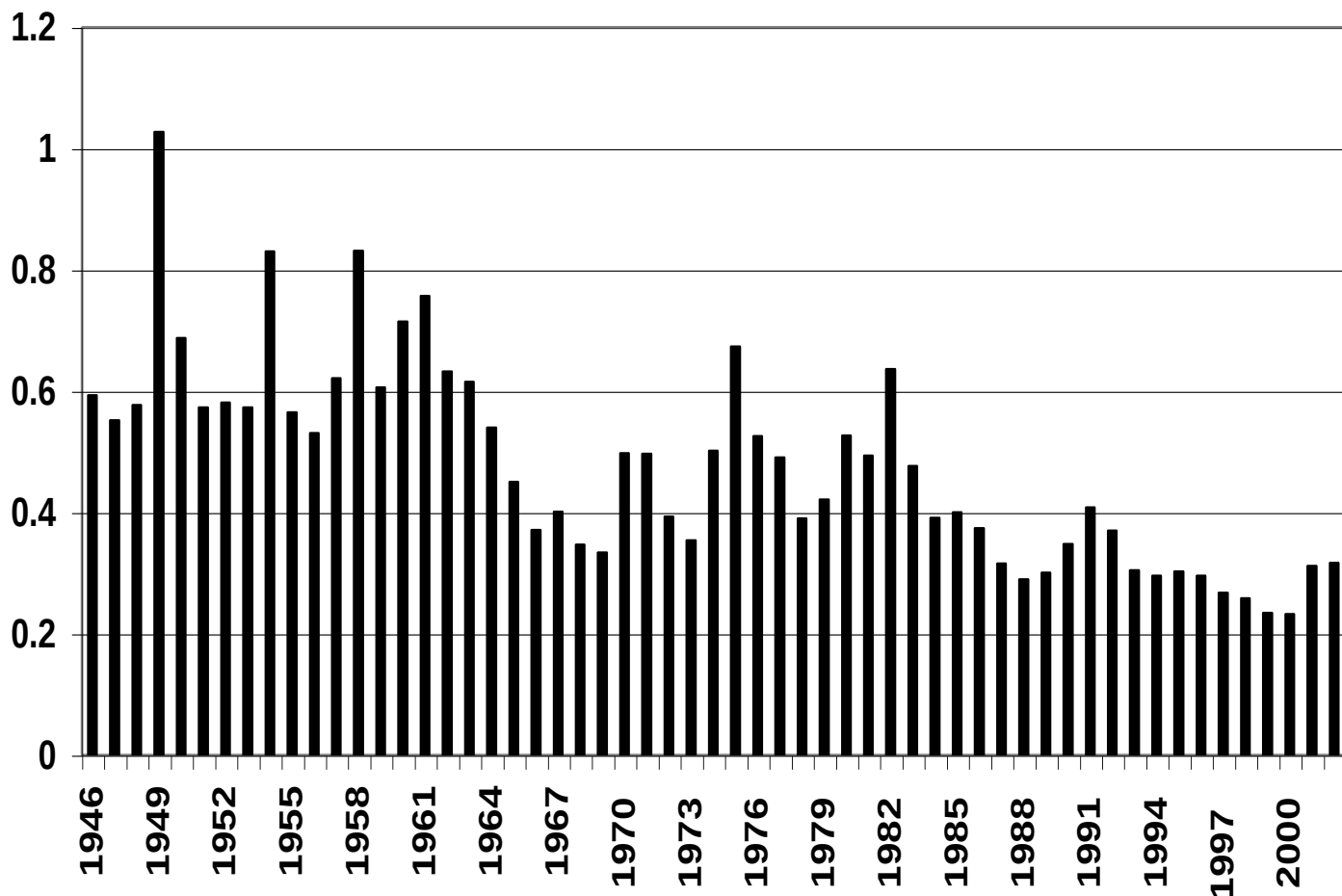
**Not even saying all recessions will
henceforth be mild.**

**Not saying that good macro policy
doesn't matter and that all changes in
macroeconomics are due to changes in
the labor market**



Puzzling facts about the 1990s and early 2000s in the US

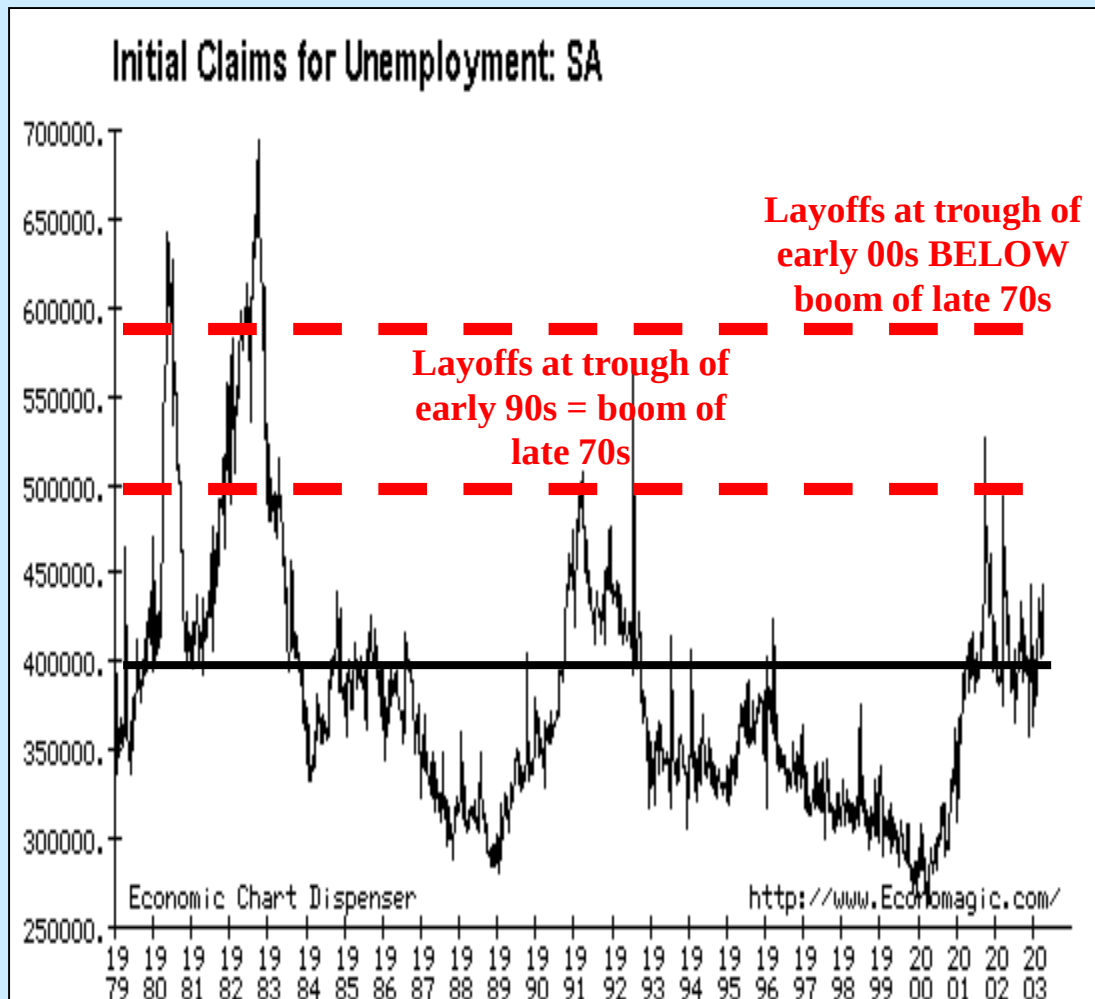
**New Weekly Unemployment Insurance Claims as
% of Covered Employment**



Low layoffs in recession



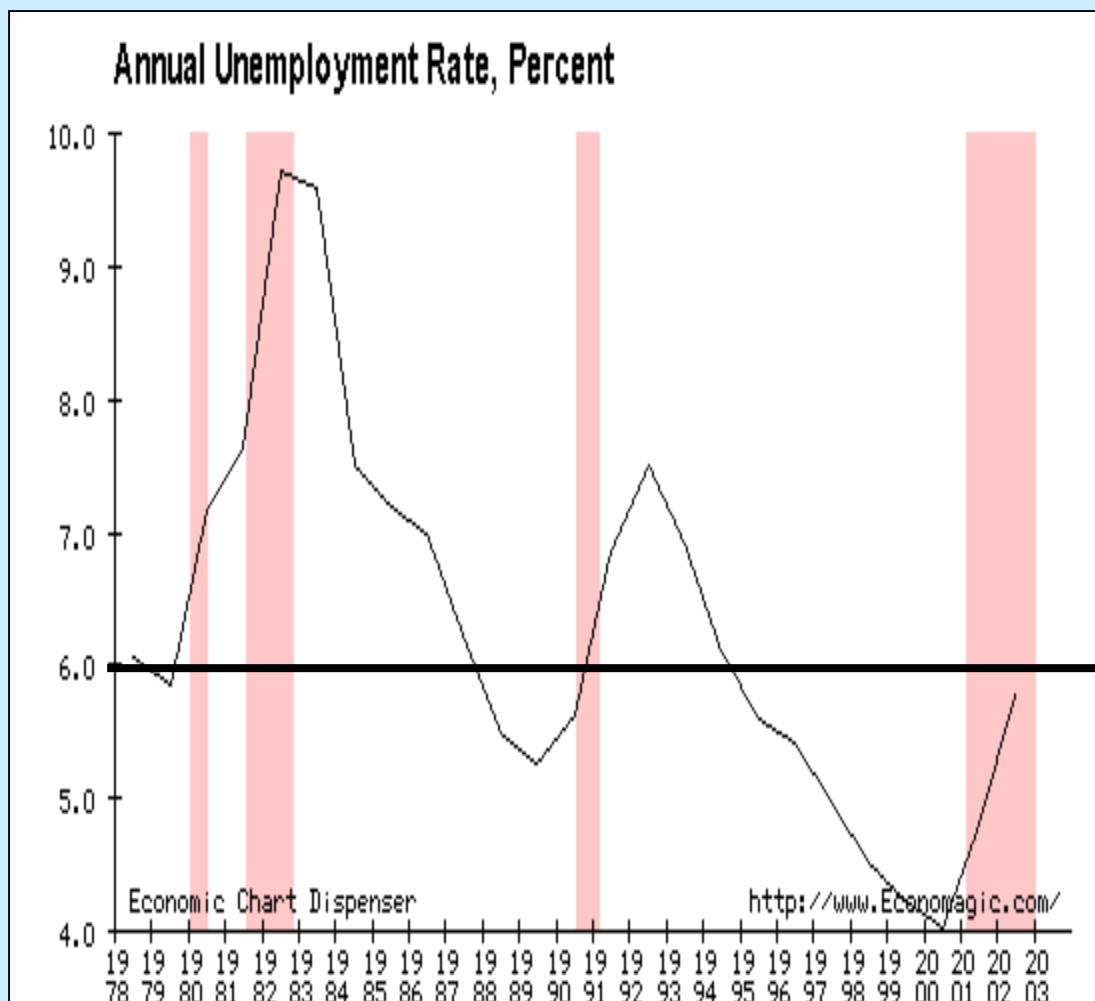
Puzzling facts about the 1990s and early 2000s in the US



**Low layoffs in recession
floating now at around
400,000 per week**



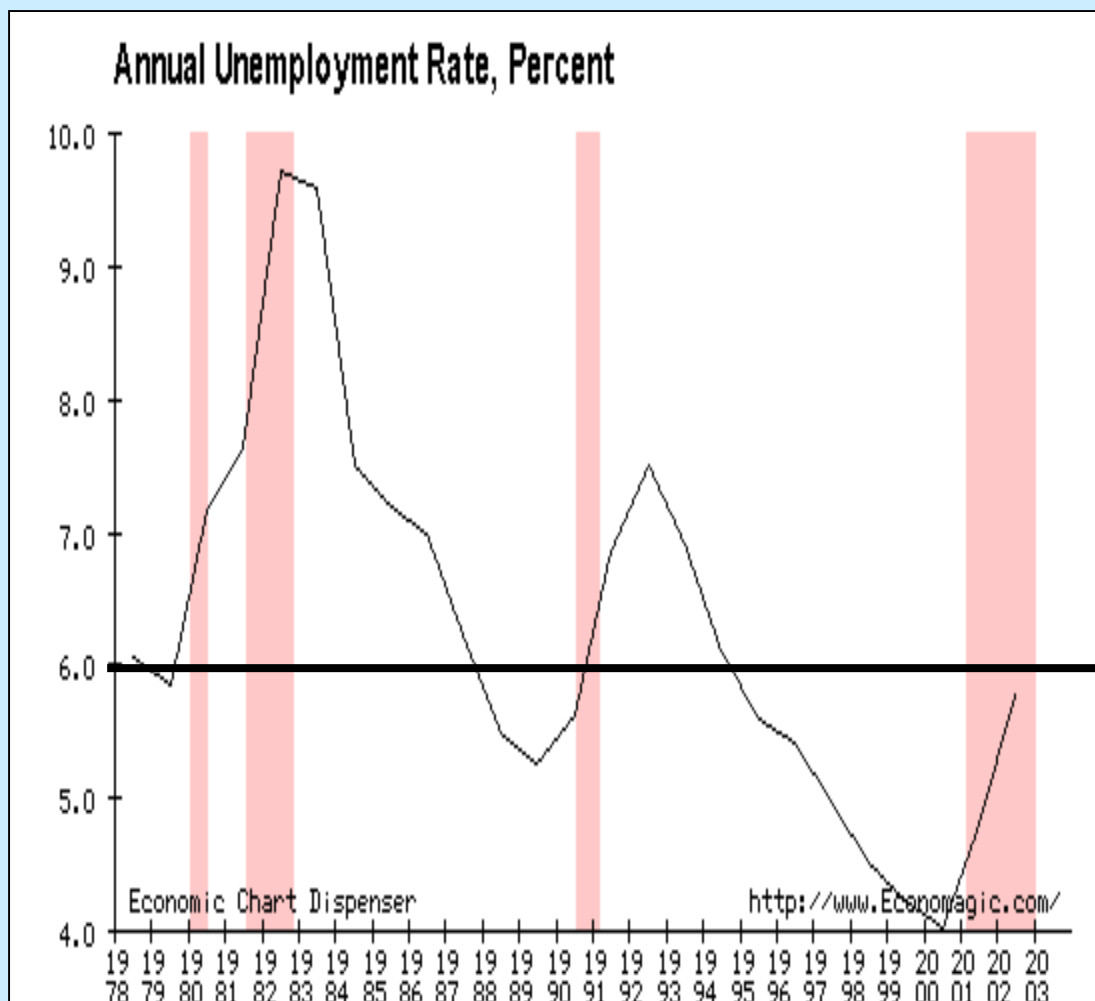
Puzzling facts about the 1990s and early 2000s in the US



**Achievement of very low
unemployment rate by end of the
1990s**



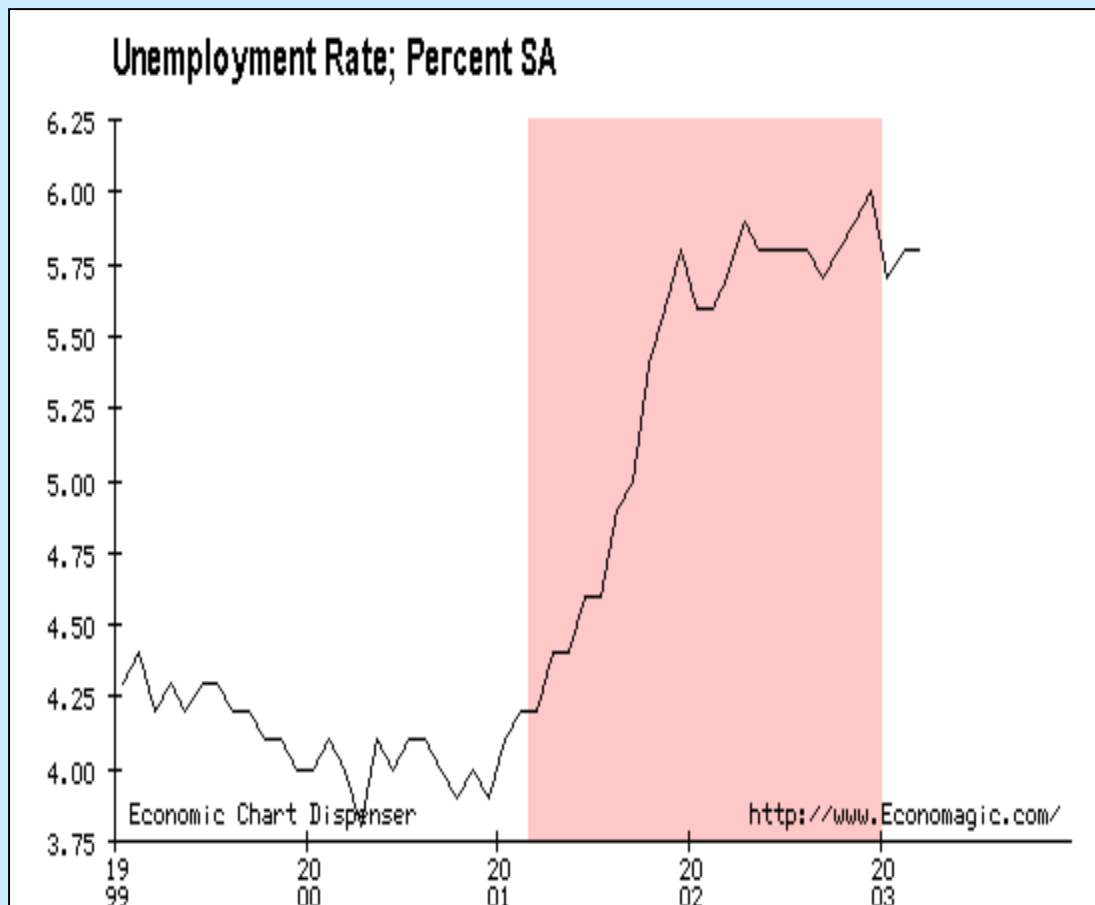
Puzzling facts about the 1990s and early 2000s in the US



**Relatively mild increase in
unemployment in recession.**



Puzzling facts about the 1990s and early 2000s in the US

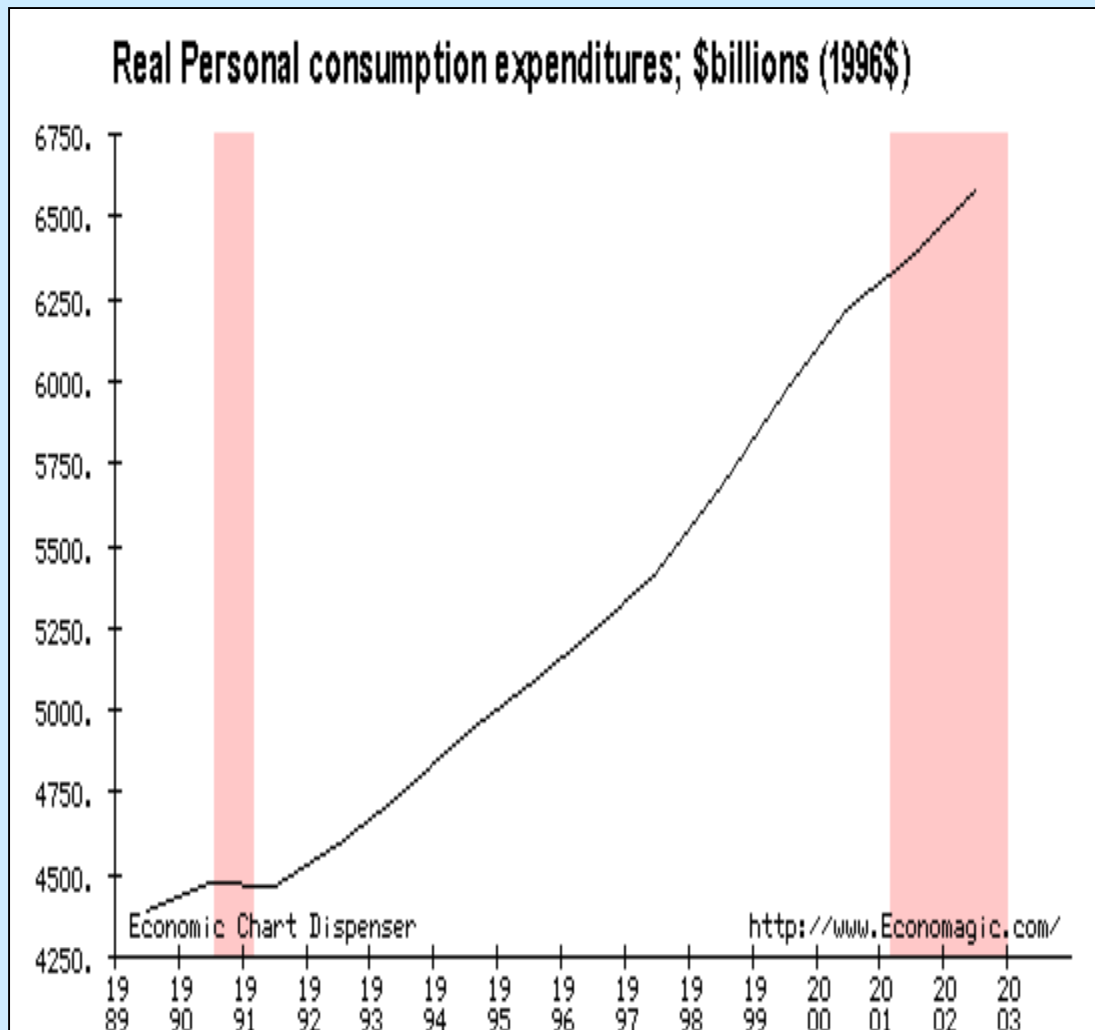


**Relatively mild increase in
unemployment in recession.**

**Rate seems to have stabilized at
around 6%.**



Puzzling facts about the 1990s and early 2000s in the US

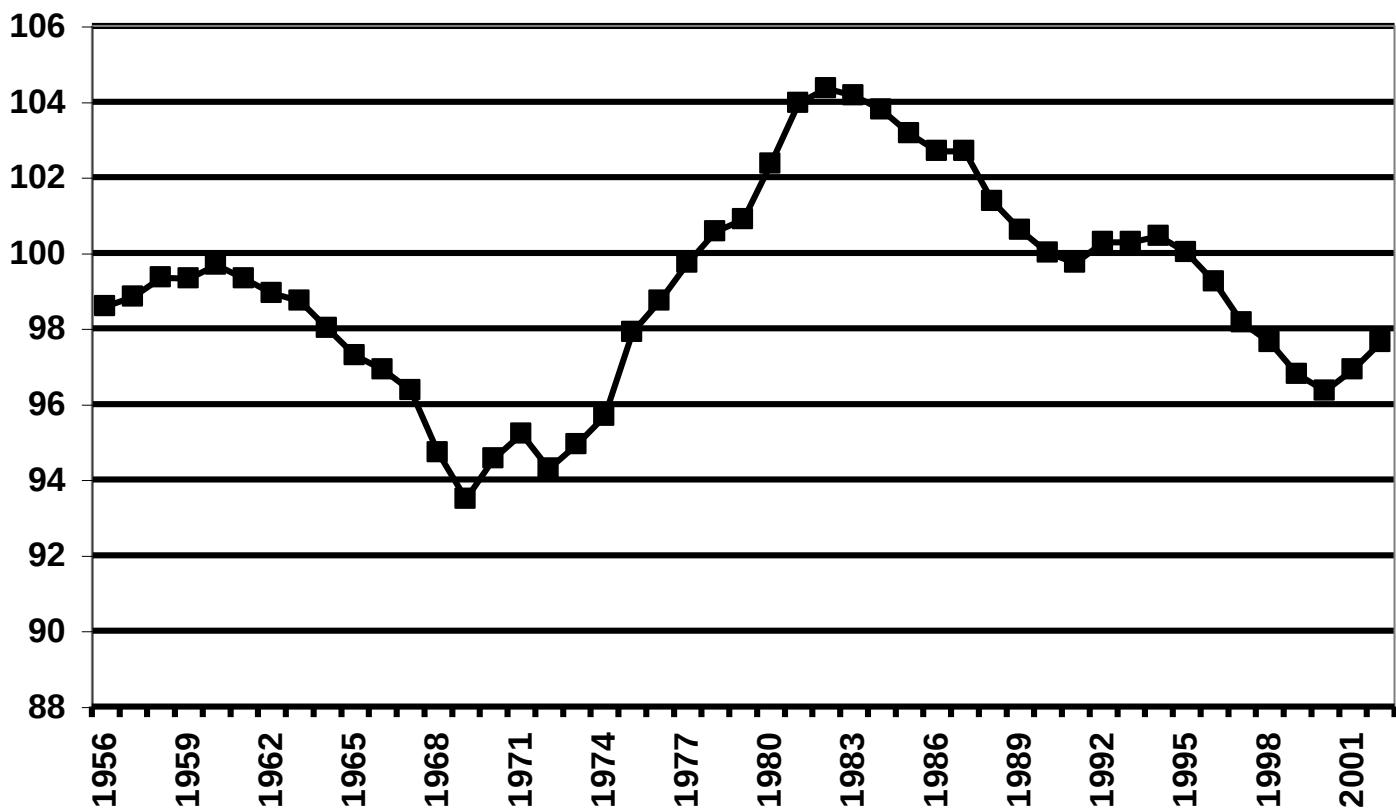


**Consumer spending holds up well
in recession despite stock market
slump, terrorist attacks**



Puzzling facts about the 1990s and early 2000s in the US

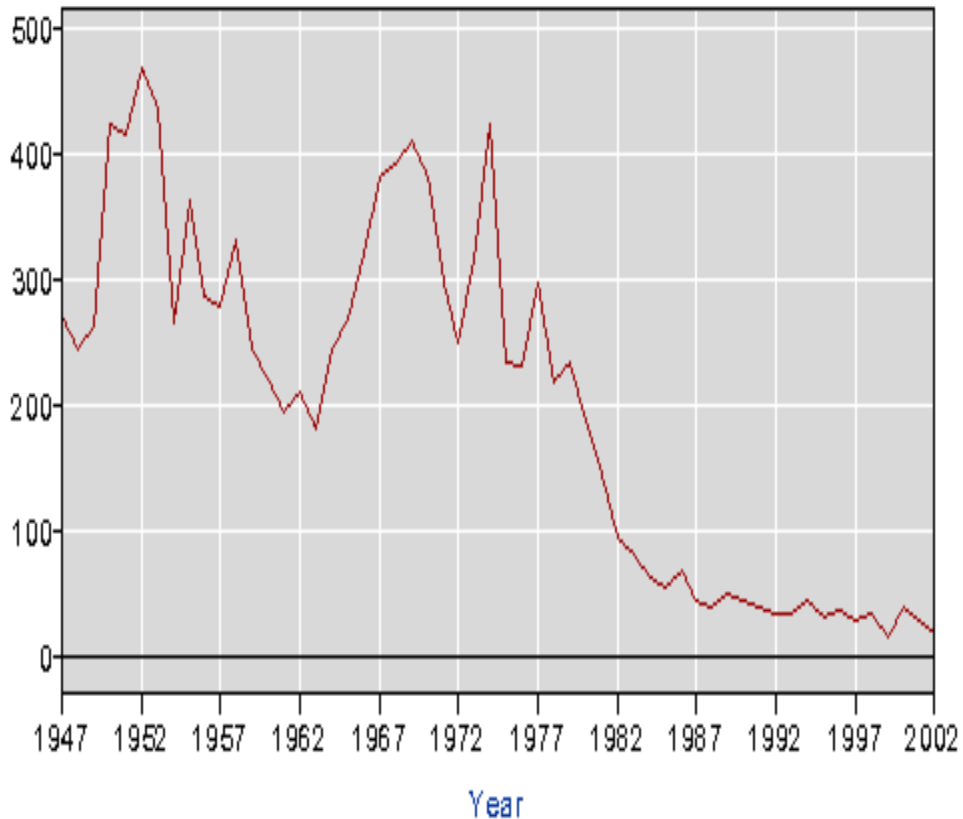
Ratio: Union Wage to Private Wage: 12/90 = 100



**Long decline in unionization
and union wage premium**



Puzzling facts about the 1990s and early 2000s in the US



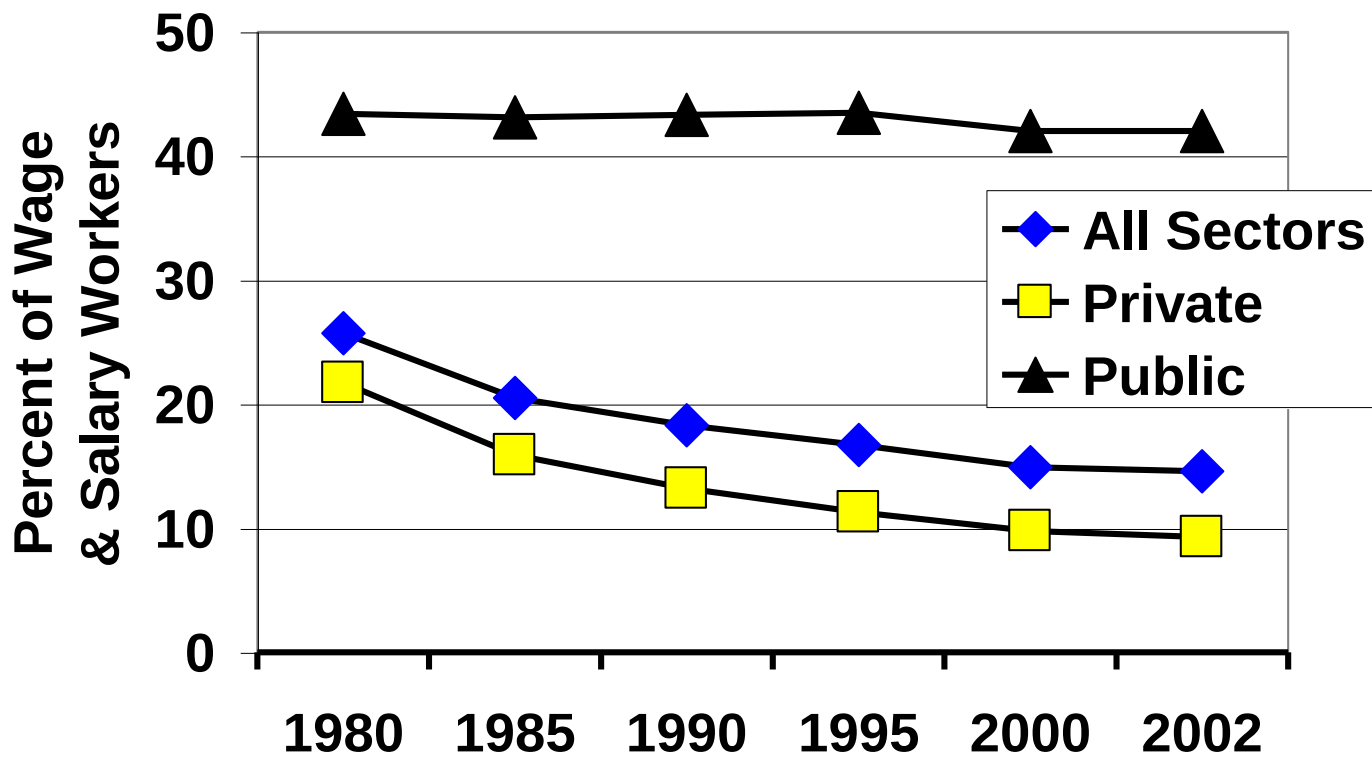
**Number of Major Work Stoppages
Beginning in Year**

Decline in Strike Activity



Puzzling facts about the 1990s and early 2000s in the US

Trend in Union Representation

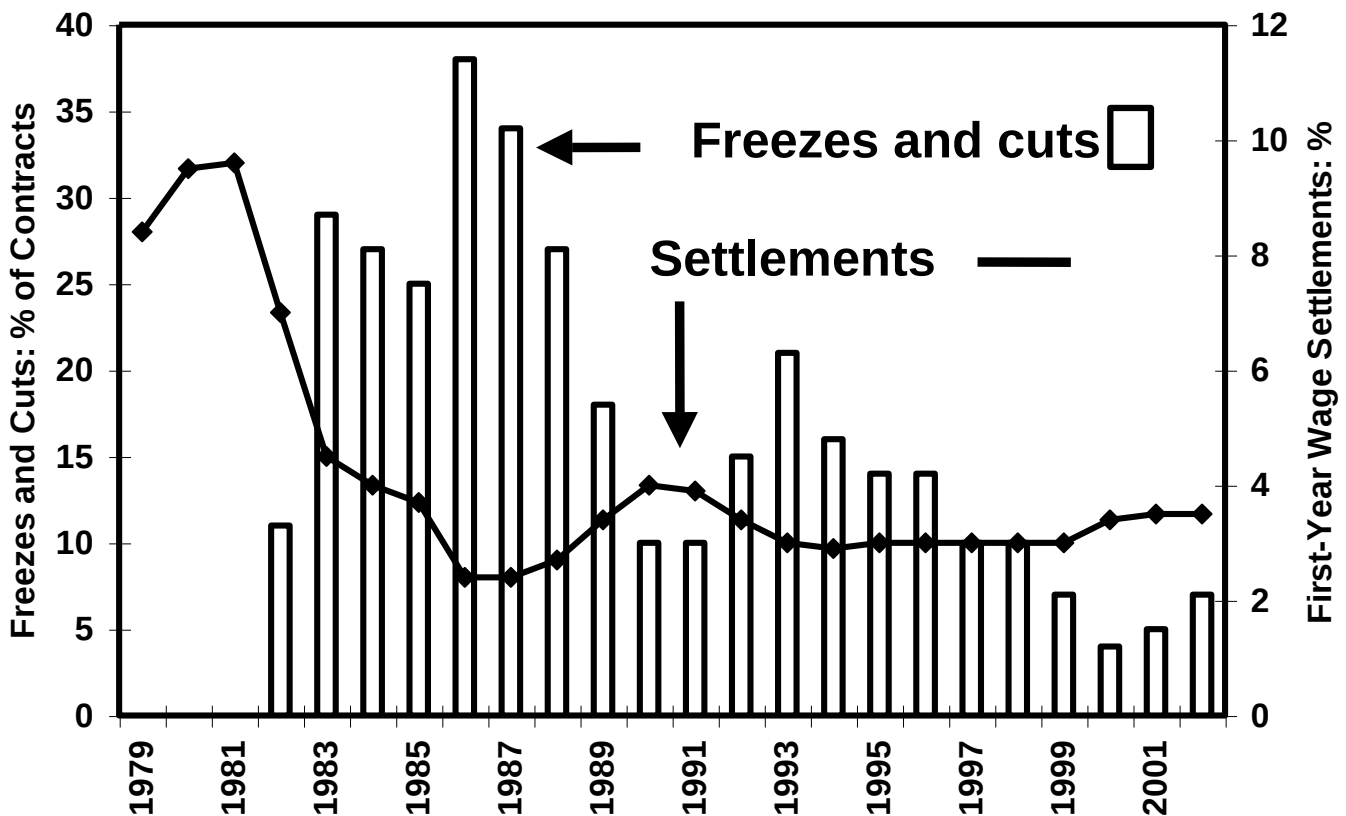


**Decline in Private Union
Representation Rate**



Puzzling facts about the 1990s and early 2000s in the US

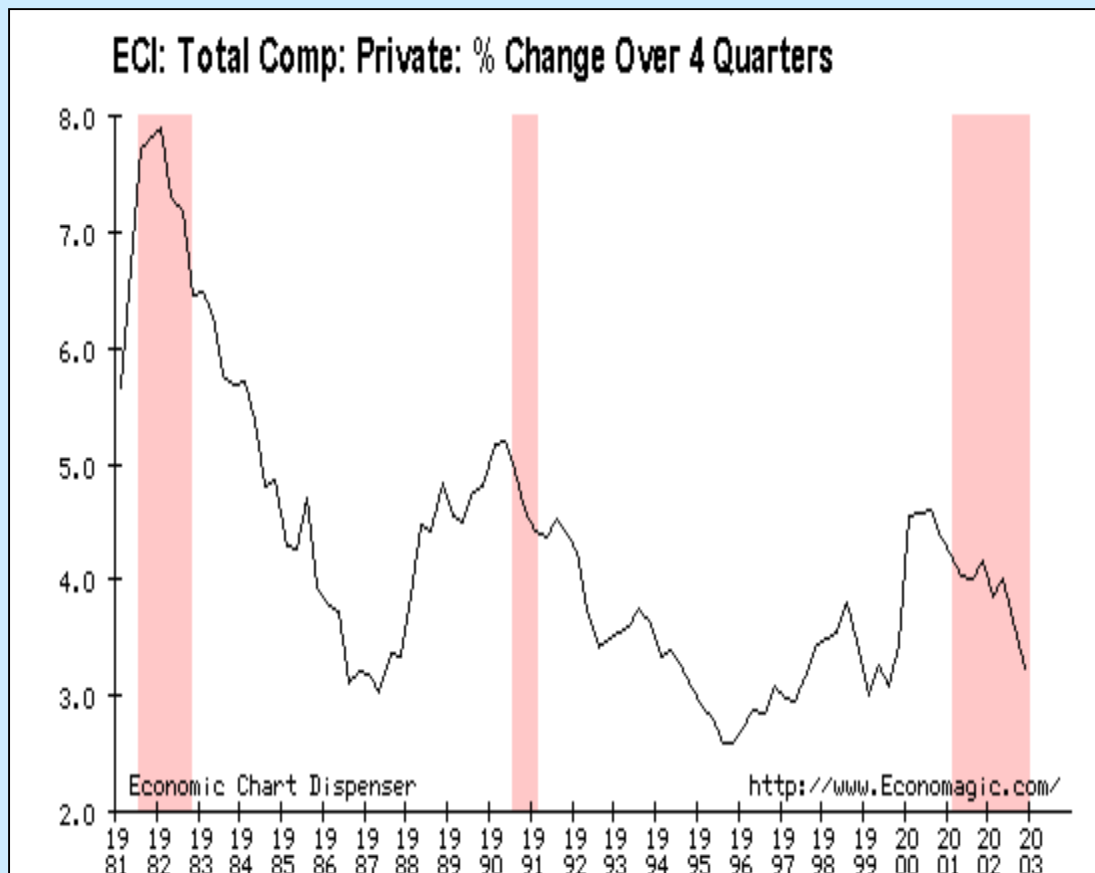
**First-Year Median Wage Settlements and Wage
Freezes and Cuts: BNA Union Series**



**After major union wage concessions in
the 1980s, low union settlements and
continued flow of new concessions**



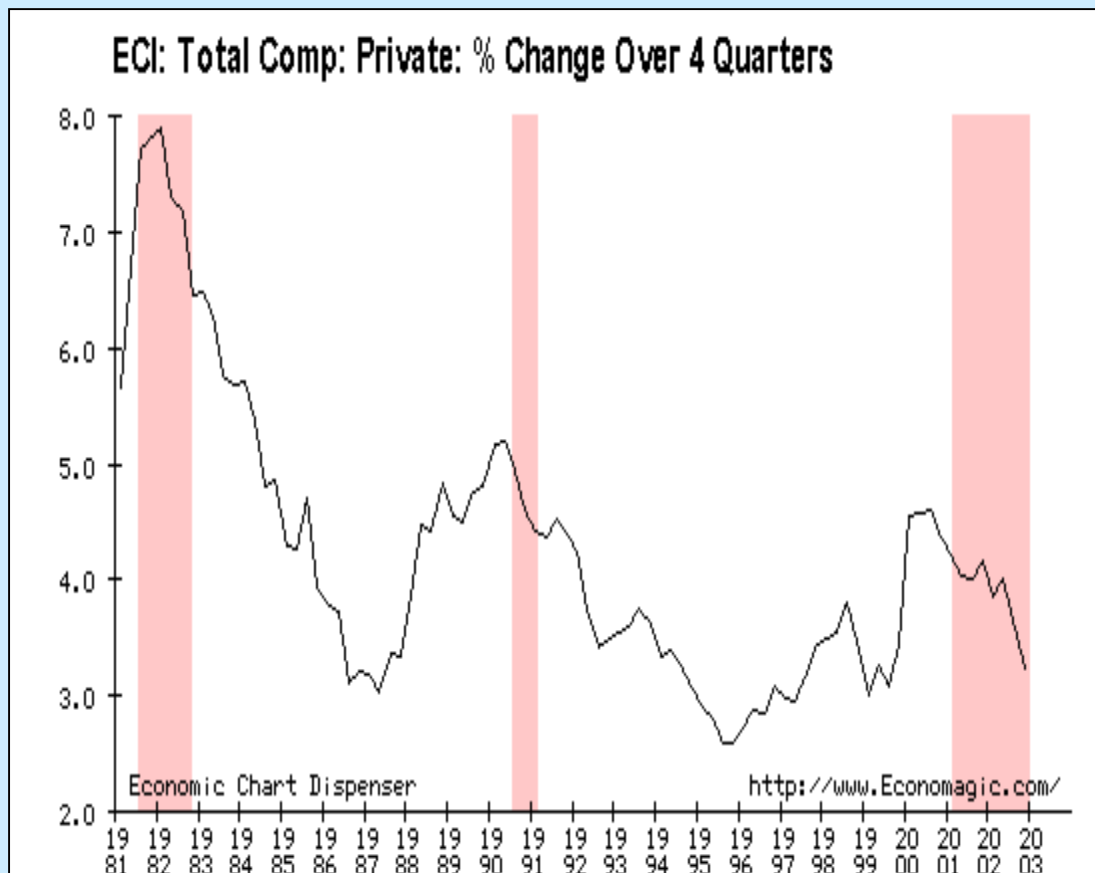
Puzzling facts about the 1990s and early 2000s in the US



**Low wage inflation despite low
unemployment in 1990s**



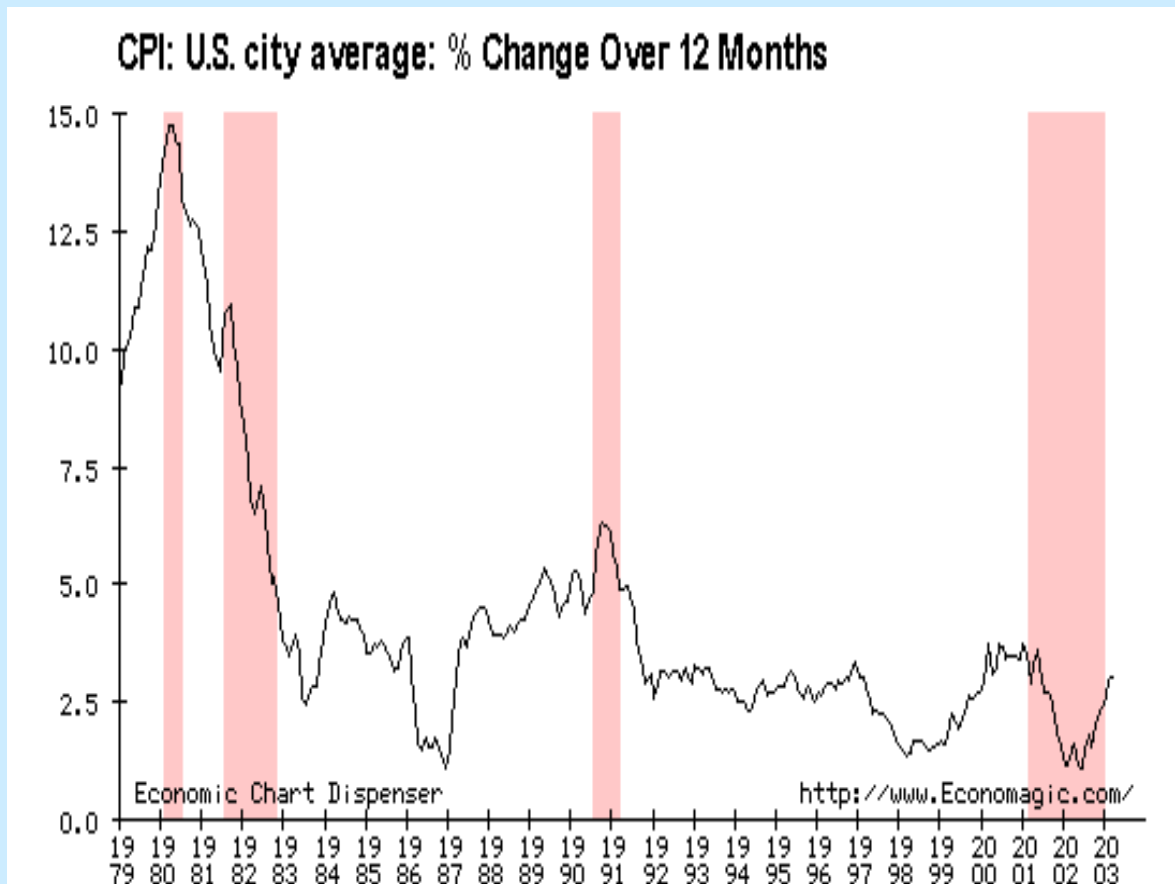
Puzzling facts about the 1990s and early 2000s in the US



**Falling and modest wage
inflation more recently**



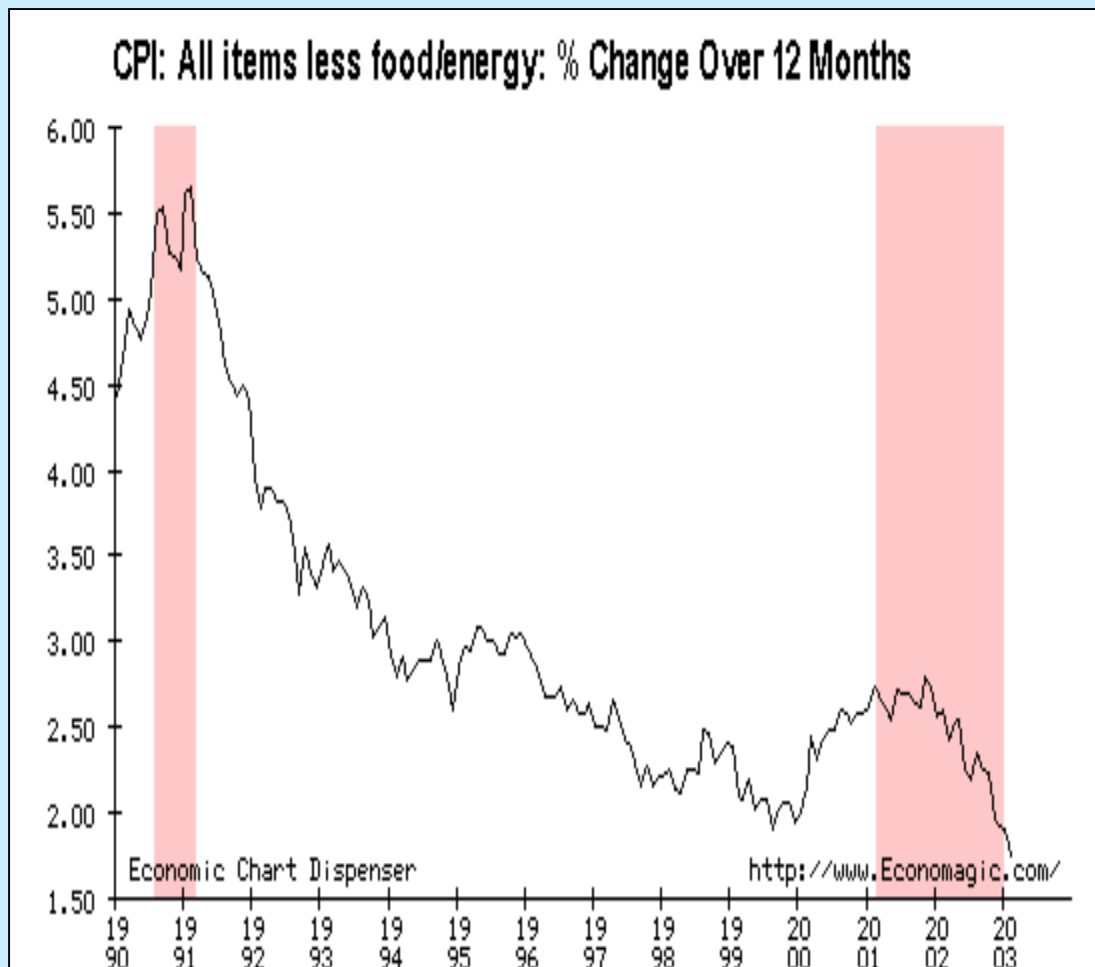
Puzzling facts about the 1990s and early 2000s in the US



**Low price all-items consumer
price inflation in late 90s which
does not accelerate until boom**



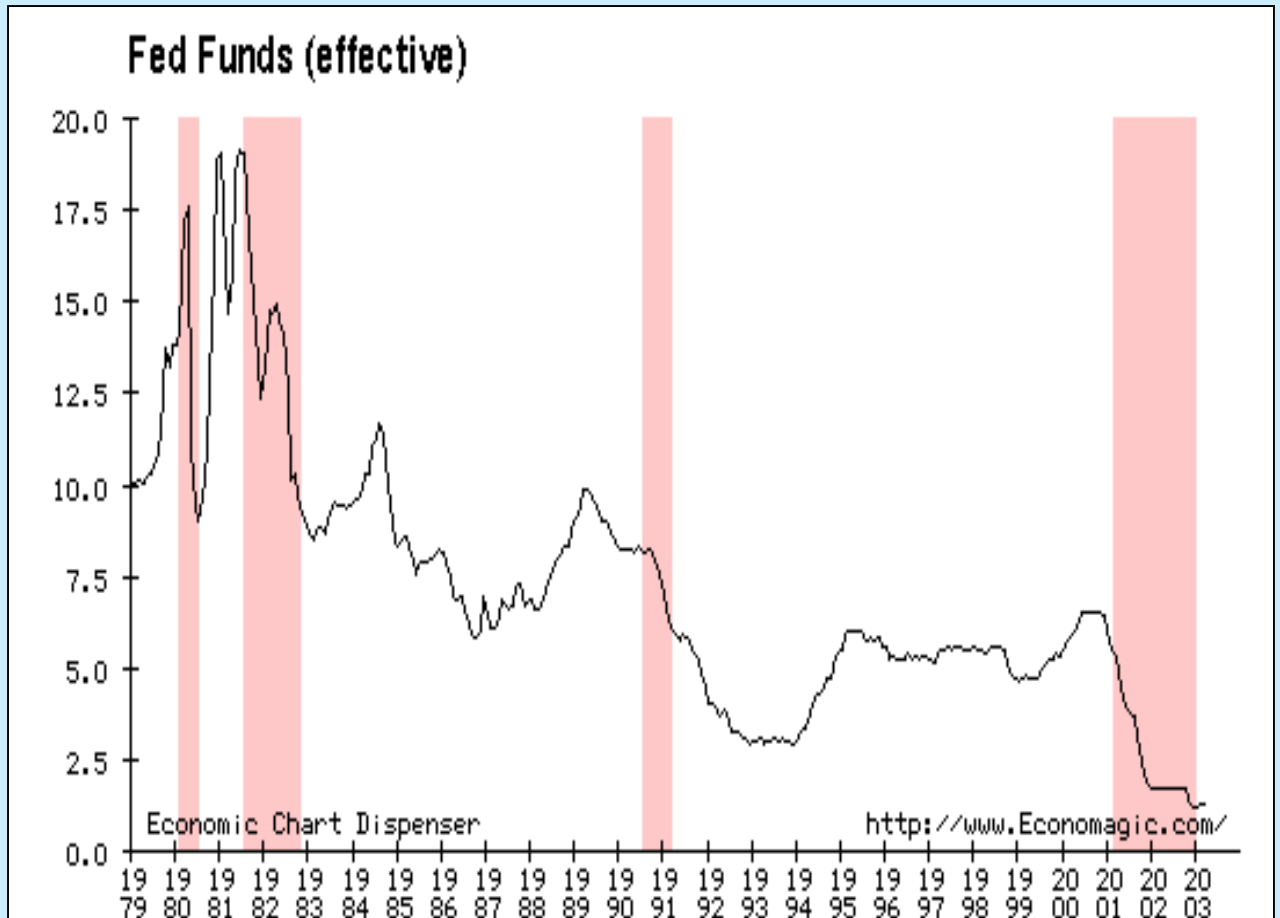
Puzzling facts about the 1990s and early 2000s in the US



**Core price inflation also
reached very low levels in 90s
boom and started to rise only at
top of boom**



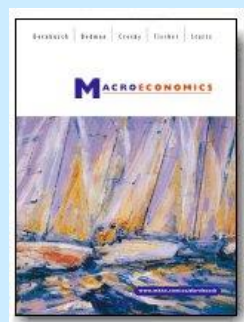
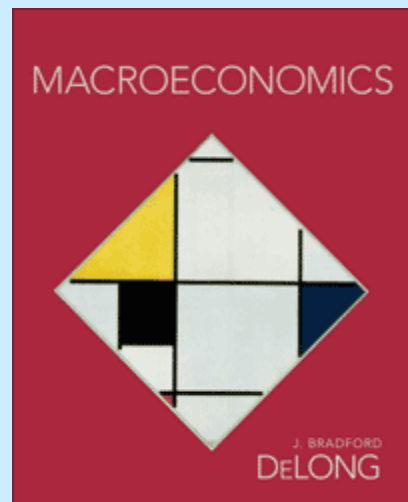
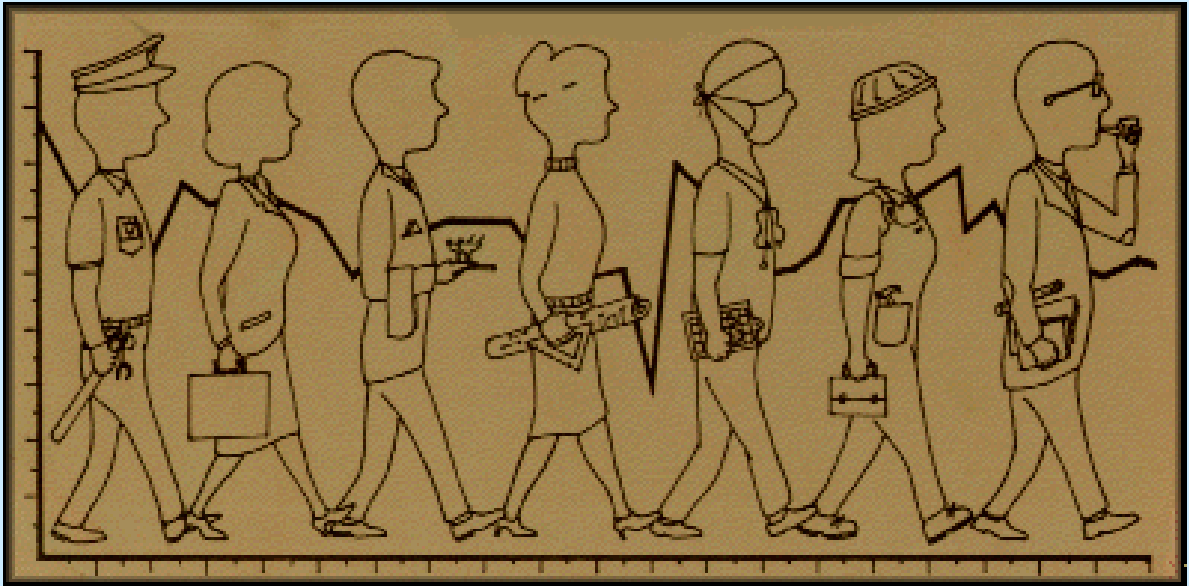
Background Information



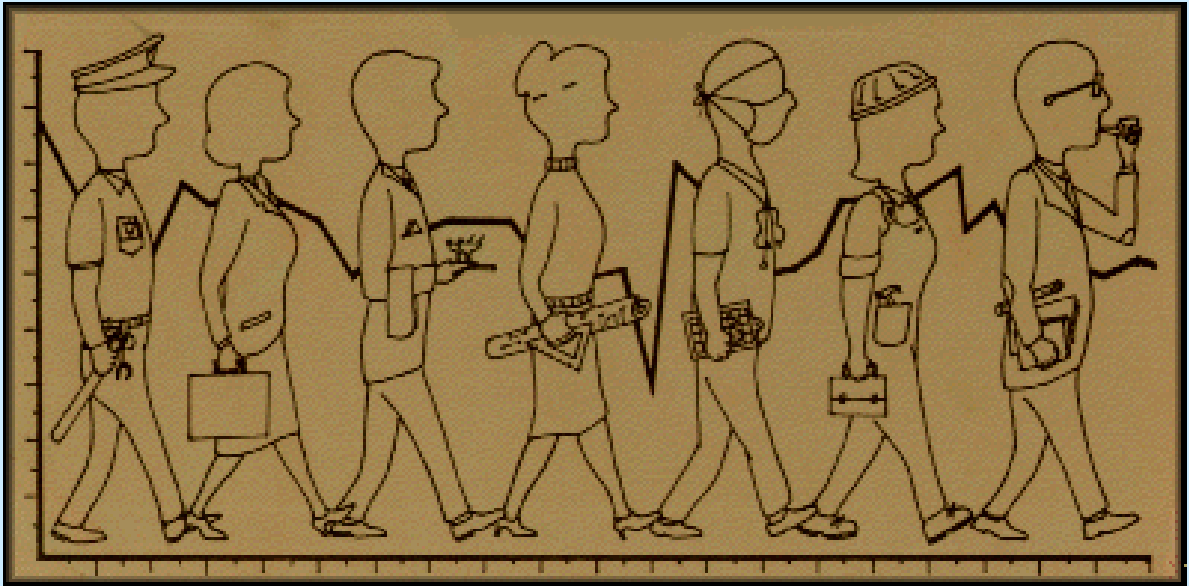
**Activist monetary policy
although official monetary
ideology changes over time**



Labor and Macro?

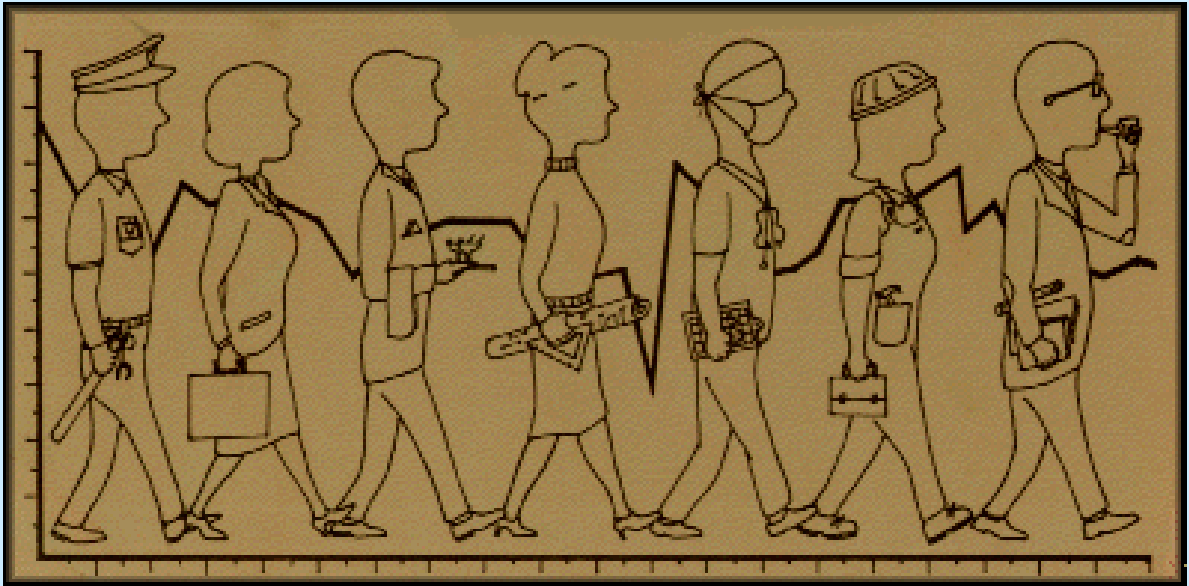


Labor and Macro?



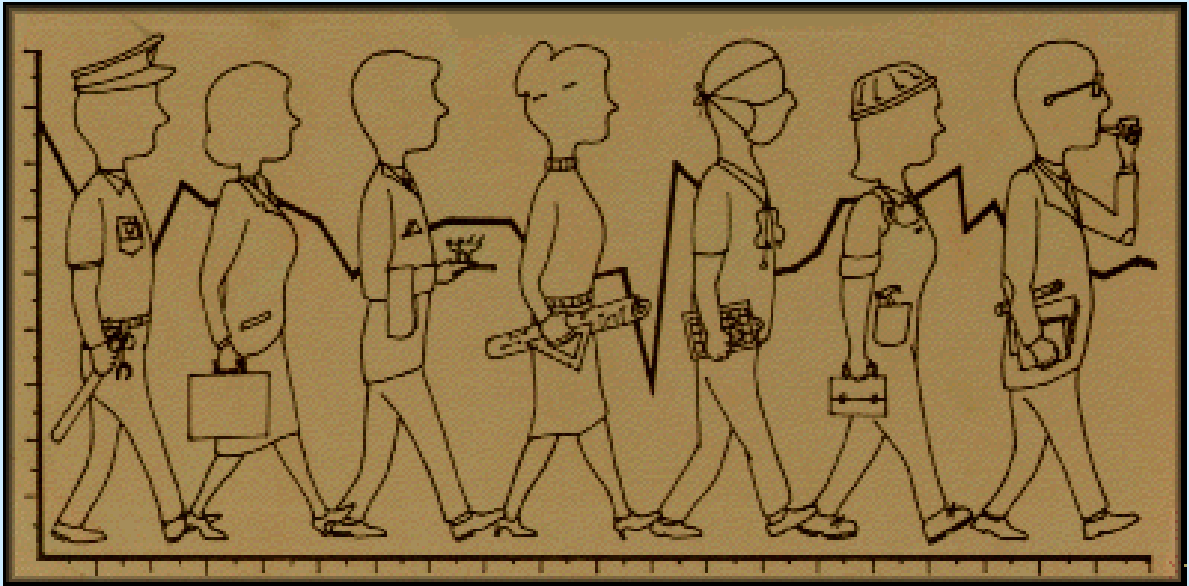
Did the labor market shape the “new economy” of the 1990s or was it computers and the Internet?

Labor and Macro?



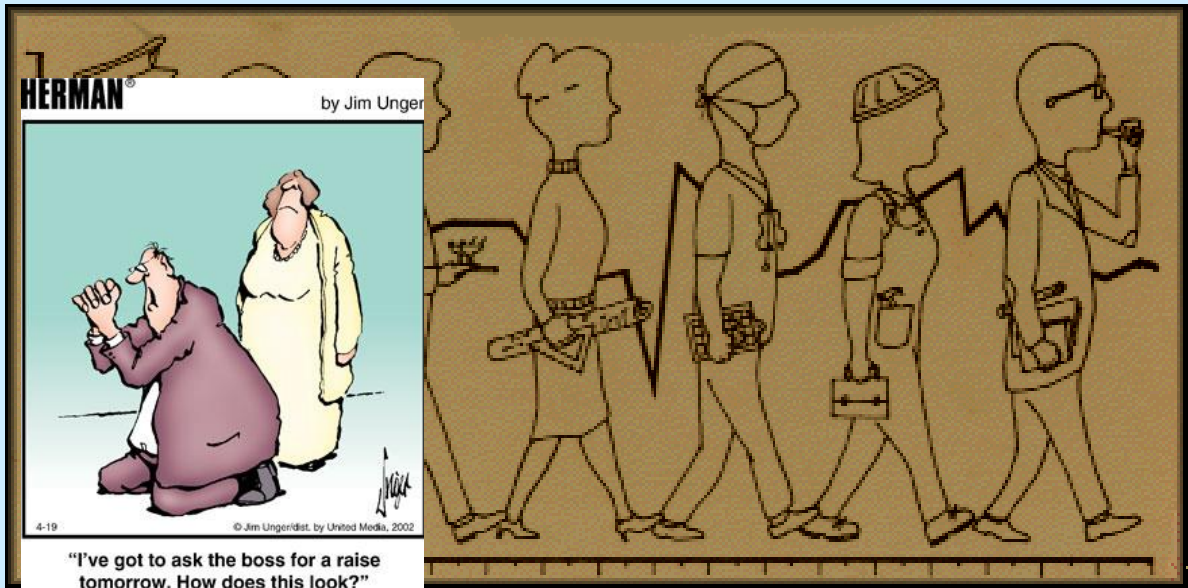
Did the labor market shape the “new economy” of the 1990s or was it clever fiscal and monetary policy?

Labor and Macro?



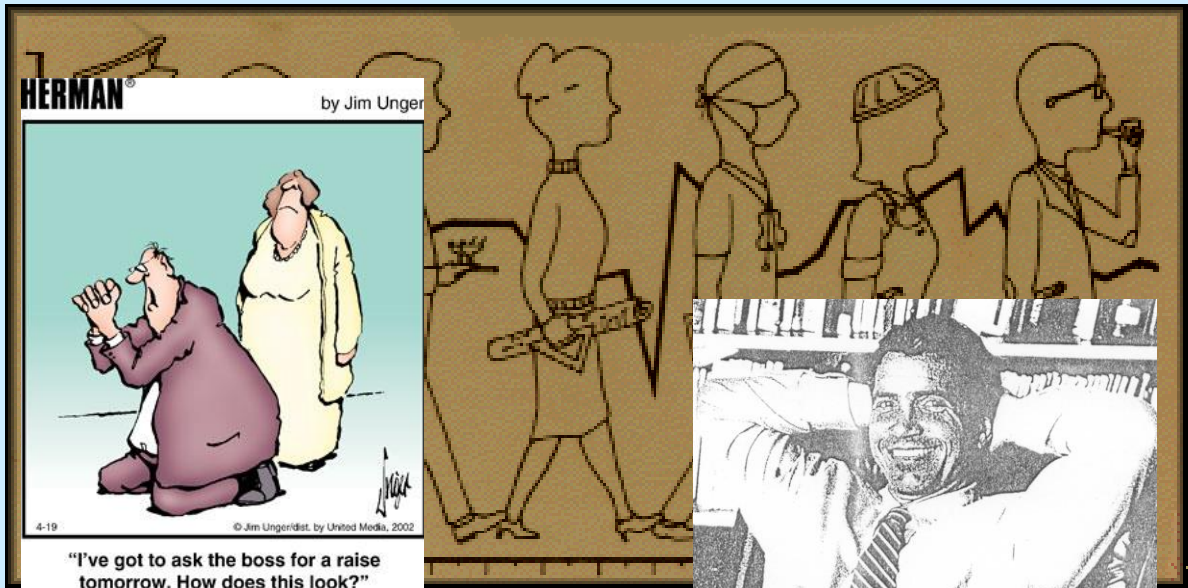
**Did the labor
market shape the
“new economy” of
the 1990s or was
it “globalization”?**

Labor and Macro?



Did the erosion of unions and employer ascendancy in the US influence the new economy of the 1990s?

Labor and Macro?



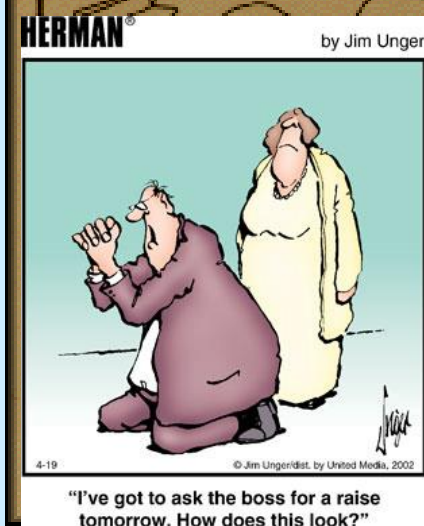
Did the labor market of the new economy produce Weitzman effects without actual implementation of Weitzman's proposal?

Labor and Macro?



**If union decline
and employer
ascendancy
played a role,
what were the
costs?**

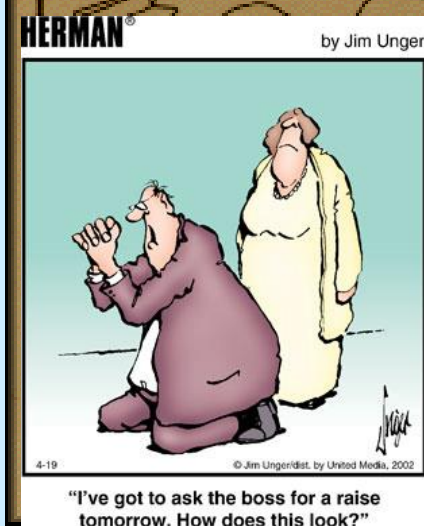
Labor and Macro?



How did those making US macro policy interpret union-sector developments?



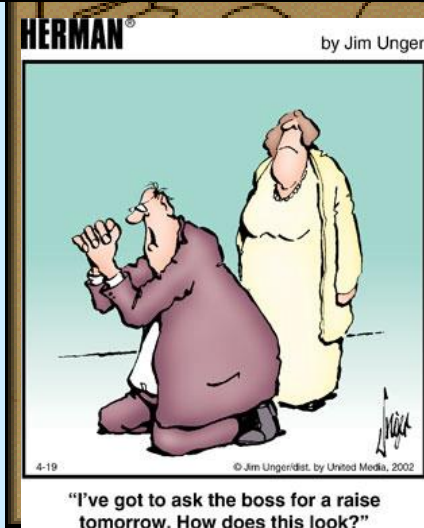
Labor and Macro?



**Not really
addressed yet:
What implications
does US experience
have for other
countries?**

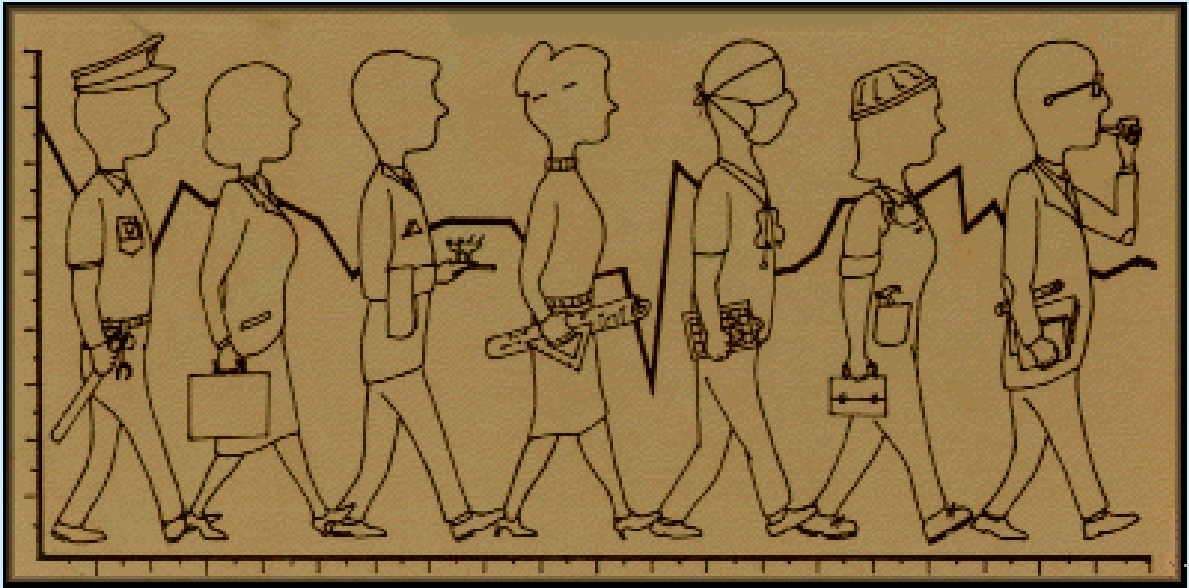


Labor and Macro?



Key proposition:
Labor markets
with monopsony
produce macro
benefits, albeit at
a cost

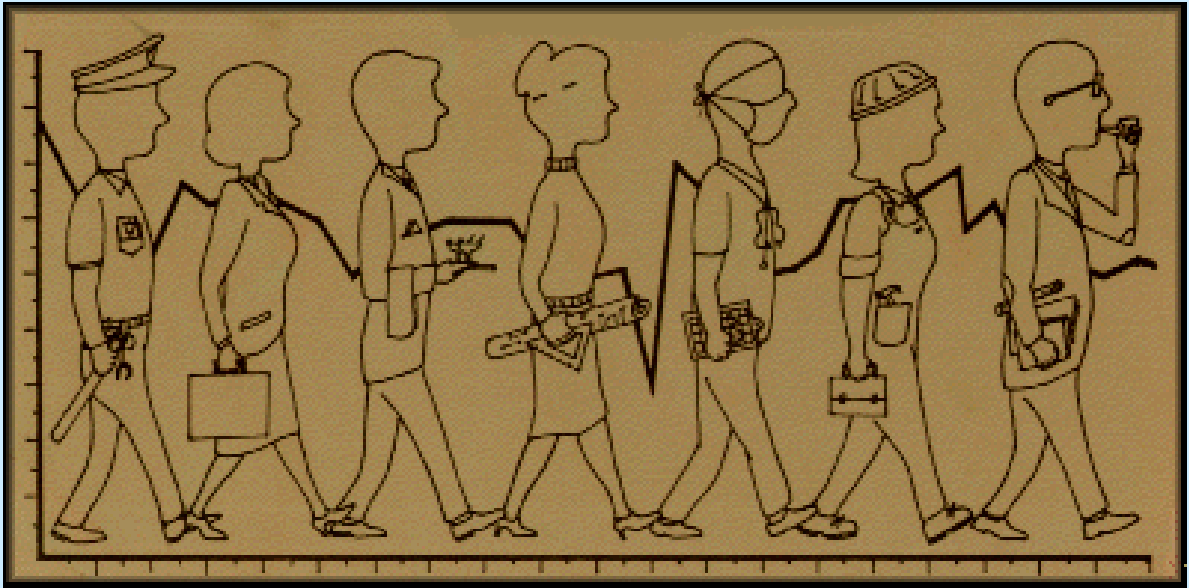
History of US Wage Determination and Macroeconomic Policy



- **Pre-New Deal
thinking about
wage setting**
- **Hoover's appeal**
- **Wagner's
preamble**



History of US Wage Determination and Macroeconomic Policy



- The 1930s & 1940s
- The 1950s
- The 1960s
- The 1970s
- The 1980s
(turning point) •

Herbert Hoover



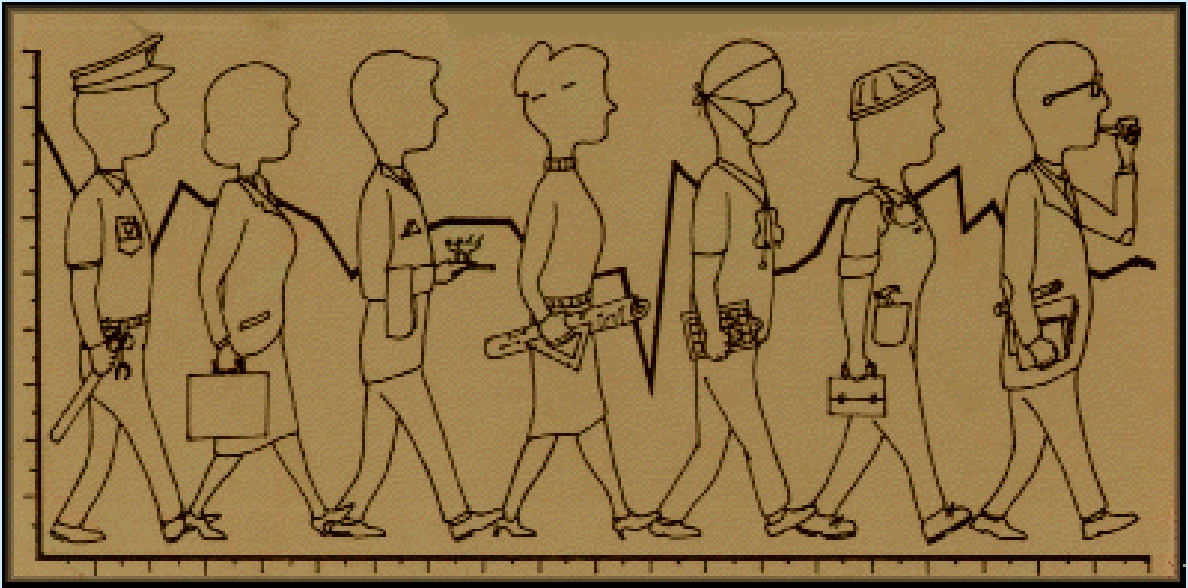
**Robert F.
(not Richard)
Wagner**



“The inequality of bargaining power between employees... and employers... tends to aggravate recurrent depressions by depressing wage rates and the purchasing power of wage earners...”

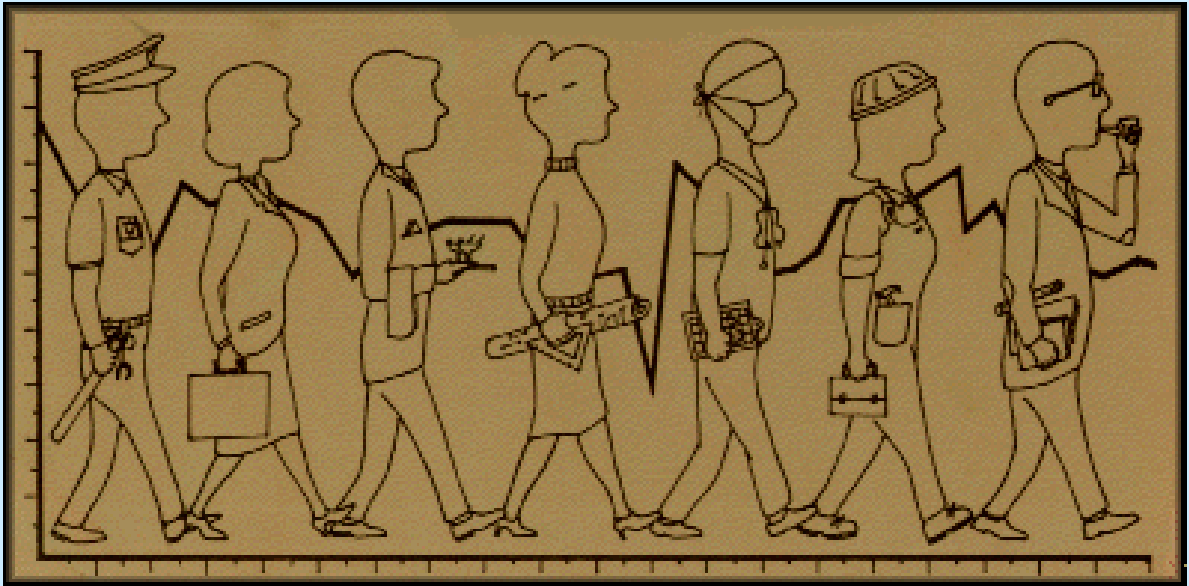
Wagner Act 1935

History of US Wage Determination and Macroeconomic Policy



- **Growth of unions**
- **Wartime wage-price controls**
-

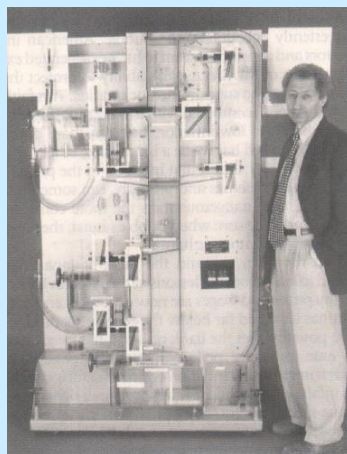
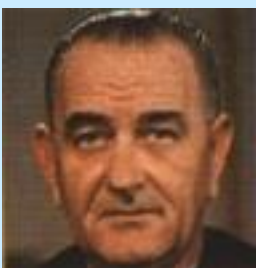
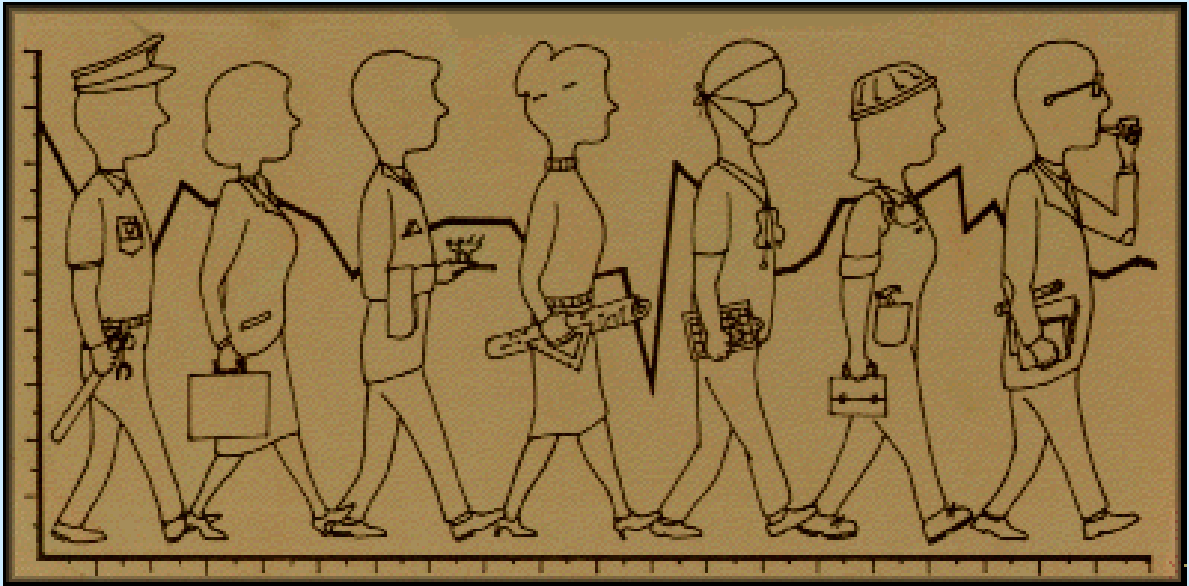
History of US Wage Determination and Macroeconomic Policy



- **European
“incomes policies”**
- **Eisenhower era:
Concerns about
wage impact on
inflation**



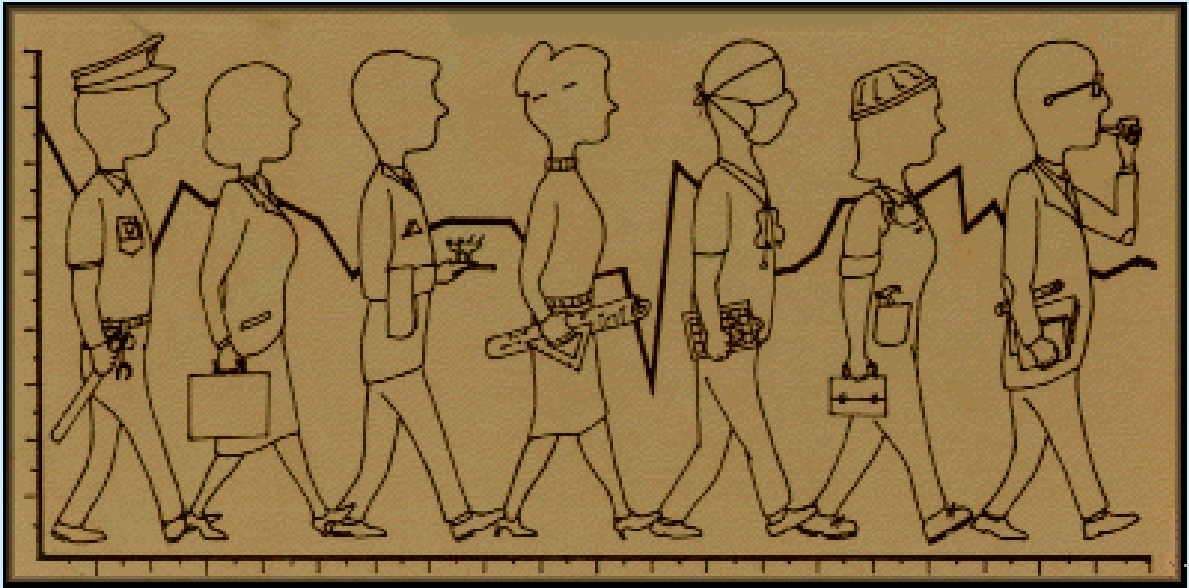
History of US Wage Determination and Macroeconomic Policy



- Notion of shifting the Phillips curve
- Kennedy-Johnson era: Wage-price guideposts



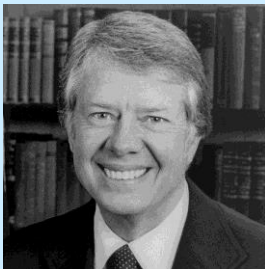
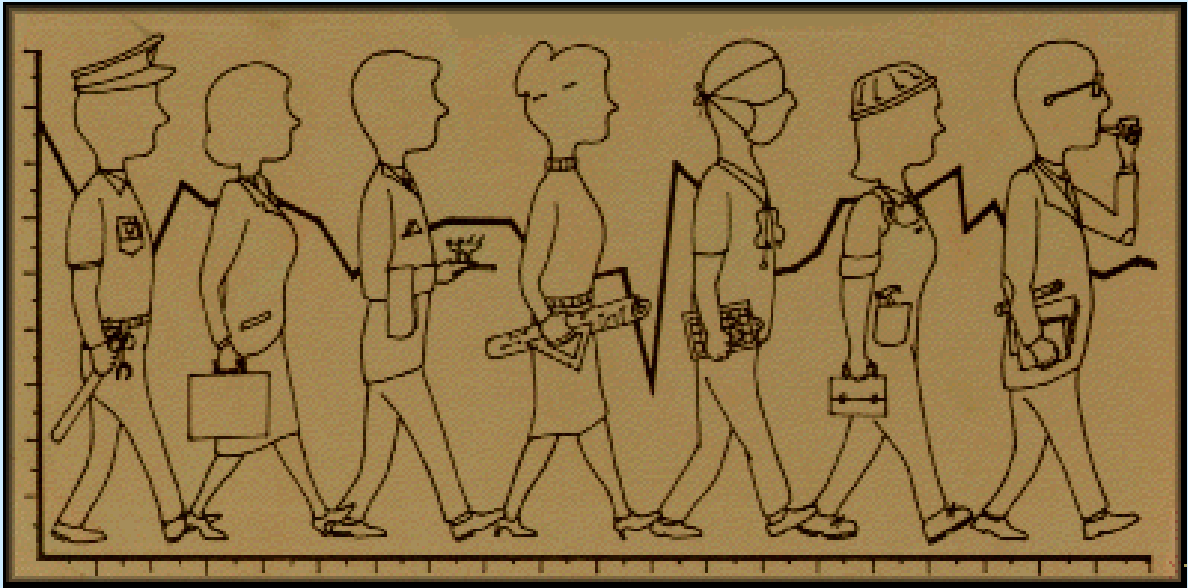
History of US Wage Determination and Macroeconomic Policy



- Notion of the “natural rate of unemployment” later termed the NAIRU
- Nixon era: Wage-price controls



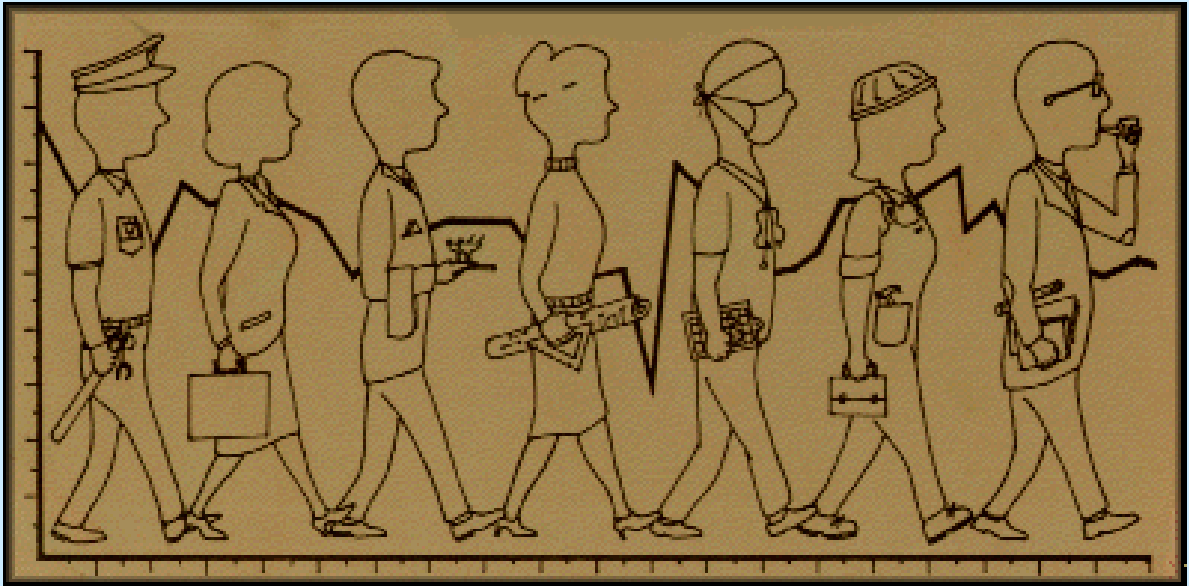
History of US Wage Determination and Macroeconomic Policy



- **Ford era: WIN program and Council on Wage and Price Stability**
- **Carter era: Wage-price guidelines and proposal for tax-based incomes policy to fight “stagflation”**



History of US Wage Determination and Macroeconomic Policy



- **Paul Volcker begins monetarist policy at the Federal Reserve**
- **Reagan administration has conflicts with unions but also generally followed monetarist model**





US Macro Policy Institutions



- **Fiscal policy: President and Congress**
 - Hard to implement on a timely basis
 - Reagan-era belief in supply-side tax cuts reduced scope for fiscal activism
 - Major dispute within Reagan administration between supply-siders and other advisors
- **Monetary policy: Federal Reserve**
 - Board of Governors
 - Federal Open Market Committee
 - Key influence of Fed chair
 - Quick implementation



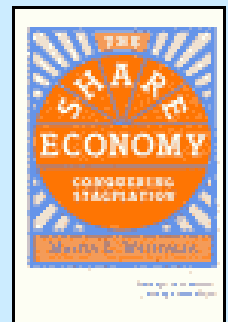
Note: *The Weitzman “Share Economy” Proposal of the 1980s*

**“The best idea
since Keynes”**

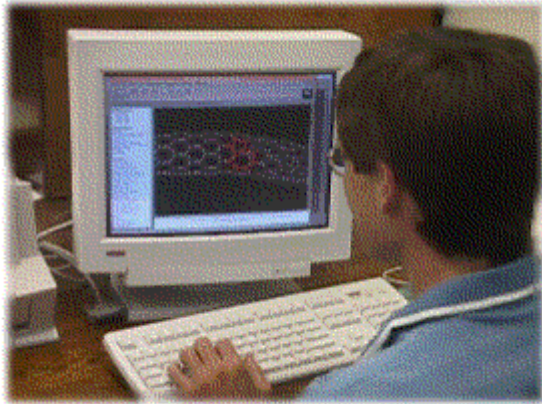
New York Times



- **Modify wage-setting institutions**
- **Move from fixed wage to programs such as profit sharing, revenue sharing, or gain sharing**
- **Lower marginal cost of labor, thus increasing labor demand**
- **Create a chronic labor shortage and lower unemployment**
- **Stabilize economy since employers would “lay off” vacancies before they laid off real workers**
- **Much discussion among academic economists; no change in US policy**



Methodology: *Federal Reserve Policy*



FRB: Federal Open Market Committee - Netscape

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Bookmarks Location <http://www.federalreserve.gov/fomc/> What's Related

 The Federal Reserve Board

Federal Open Market Committee

The Federal Open Market Committee consists of twelve members: the seven members of the Board of Governors of the Federal Reserve System; the president of the Federal Reserve Bank of New York; and, for the remaining four memberships, which carry a one-year term, a rotating selection of the presidents of the eleven other Reserve Banks. The FOMC holds eight regularly scheduled meetings per year to direct the conduct of open market operations by the Federal Reserve Bank of New York in a manner designed to foster the long-run objectives of price stability and sustainable economic growth. The FOMC also establishes policy relating to System operations in the foreign exchange markets.



[Meetings calendar, statements, and minutes](#) | [Federal funds rate](#)

[Transcripts](#) | [Beige Book](#) | [Members](#)

[Federal Open Market Committee reports on the Freedom of Information Act](#)

Schedule of Meetings, Statements, Minutes, and Transcripts

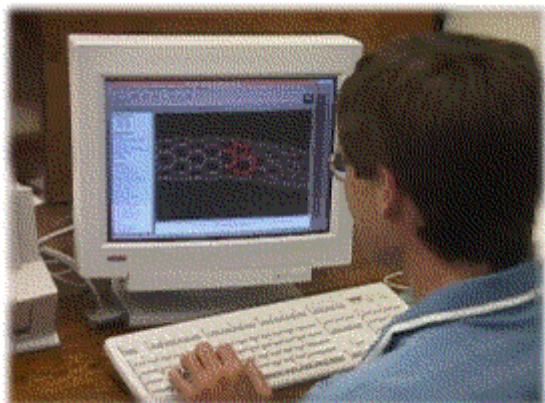
Meetings: Dates for the eight regularly scheduled meetings held by the FOMC each year are shown in the calendars below. (Dates on which votes were taken between regularly scheduled

Document: Done

Start OmegaWare My Computer Removable Di... FRB: Feder... Microsoft Pow... Microsoft Wor...

4:05 PM

Federal Reserve Policy

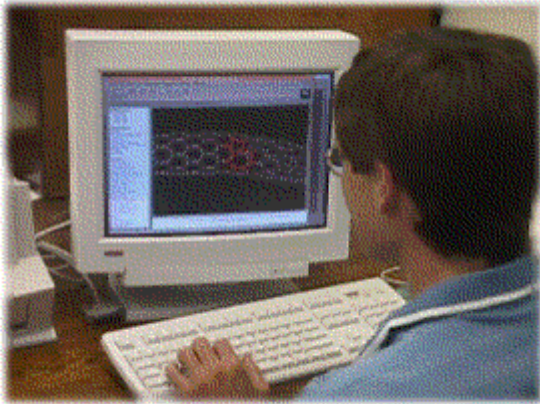


CHAIRMAN GREENSPAN. *You realize that the labor unions would say that was awful: you say it's wonderful.*

MR. SYRON. *That's right, but we are not in an AFL-CIO meeting. And they have a little different view than we do on what is considered wage inflation as well.*

Federal Open Market Committee
transcript of February 6-7, 1990

Federal Reserve Policy



Canary in the coal mine
interpretation: When the bird
stops singing, inflation is dead
or dying.



Methodology: *Administration Policy*



**Martin
Feldstein**



**Murray
Weidenbaum**

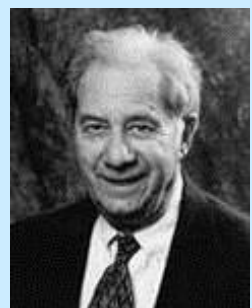


**William
Niskanen**



Administration Policy

- **Eschew any return to wage-price controls or guidelines**
- **“Monetarist” thinking leads to discounting of any special union effect on inflation**
- **Labor market actions not seen as macro oriented**
 - **PATCO**
 - **Aerospace negotiations**
 - **Teenage subminimum wage**



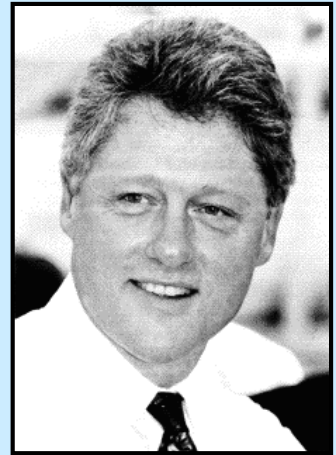
Reagan Fires Air Traffic Controllers: 1981



Volcker thought it was significant



Administration Policy

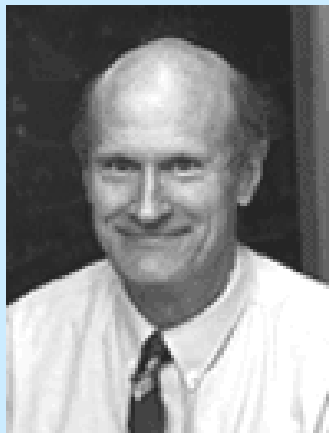
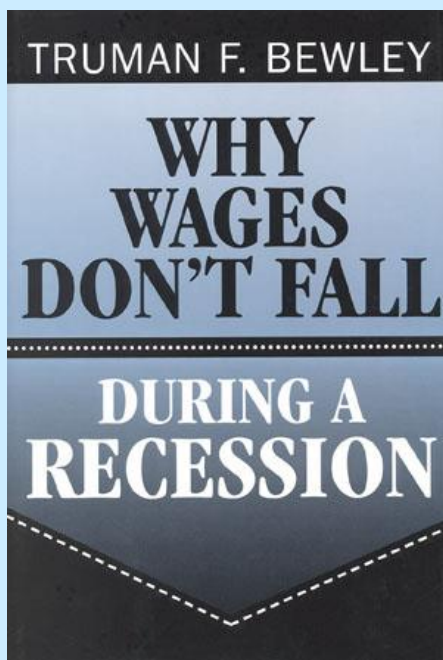


After 1996

Nonunion Monopsony



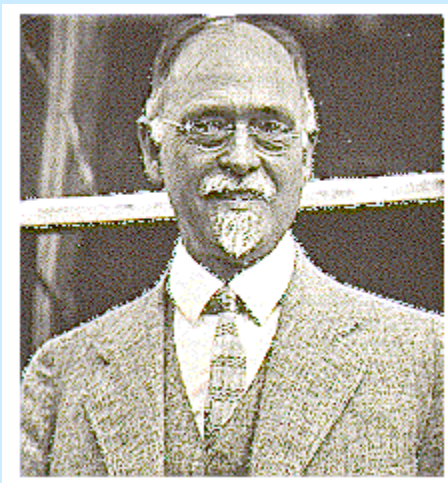
**Tied to
downward
nominal wage
rigidity**



Nonunion Monopsony



**Tied to
downward
nominal wage
rigidity**



Irving Fisher

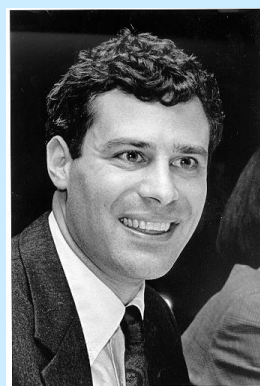
1867-1947

Father of “money illusion” concept



Monopsony/Wage Rigidity

- Tacit (or overt) collusion
- Labor flow model along David Card-Alan Krueger lines
- Possible link to downward nominal wage rigidity (twin of European hiring argument)
- Note: Assumed “norm” in 1930s (Wagner Act earlier)



• Card and Krueger

Monopsony, not demand=supply, is norm for “competitive” (nonunion) labor markets

Figure 1: Turnover Rate Function

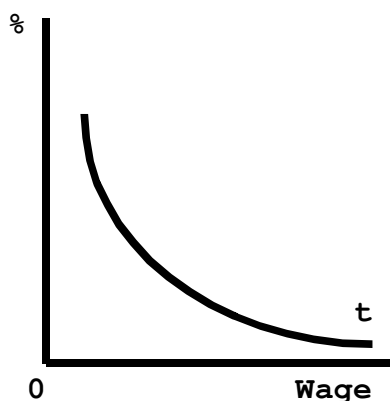


Figure 2: Turnover Number Function

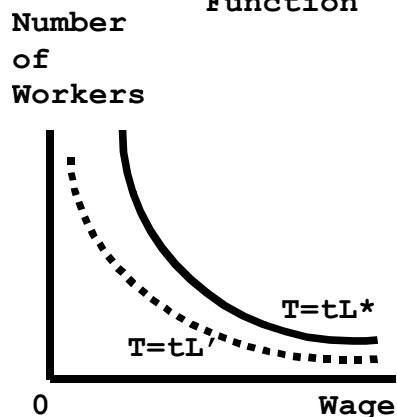


Figure 3: Hiring Function

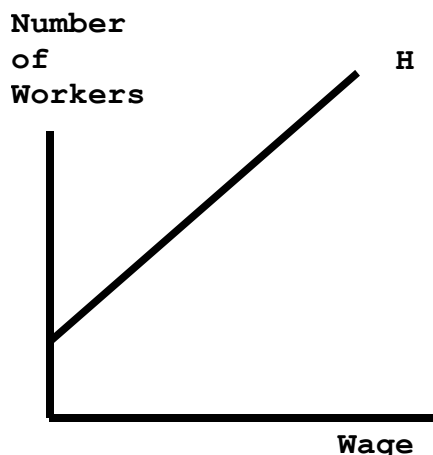
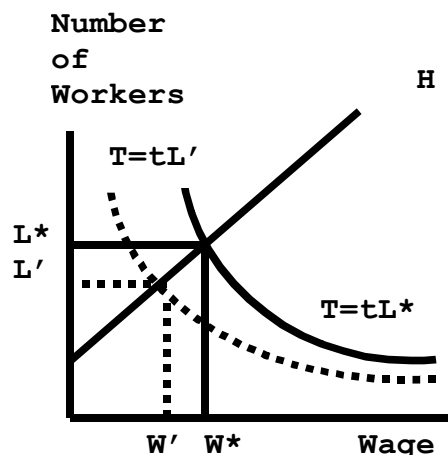
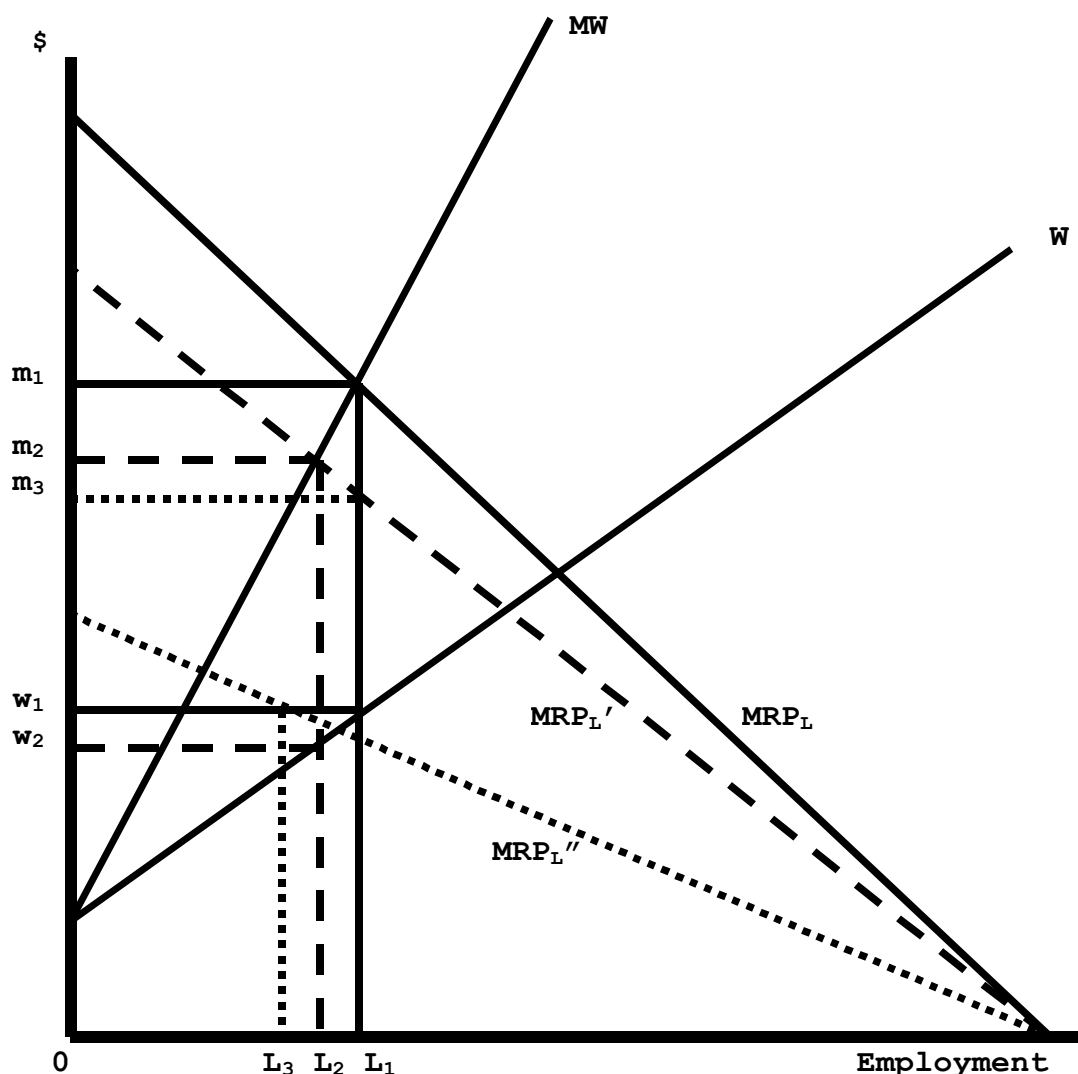


Figure 4: Steady State



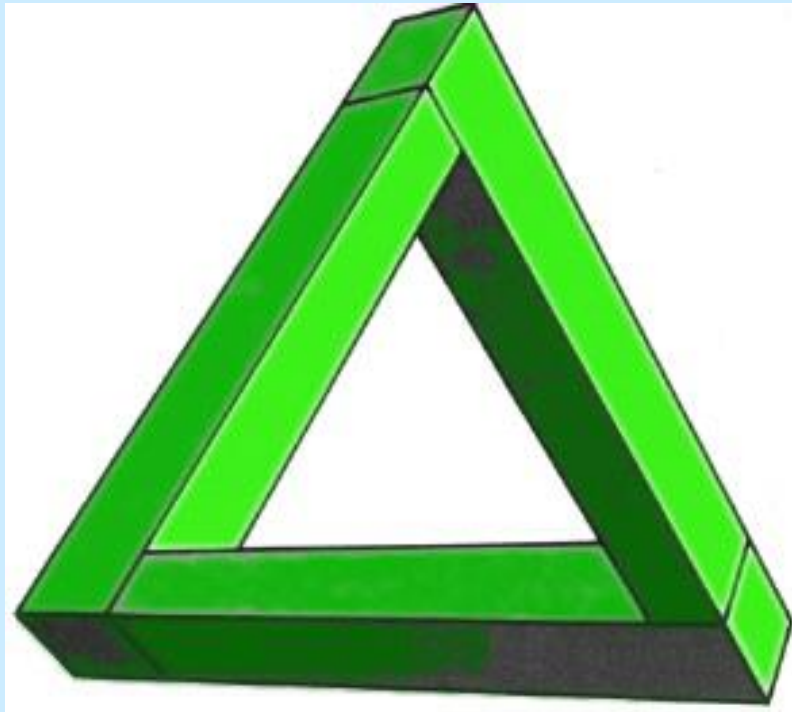
Monopsony, not demand=supply, is norm for “competitive” (nonunion) labor markets

Figure 5: Monopsony With Demand Decline



**Add wage nominalism (downward
wage rigidity) to monopsony model**

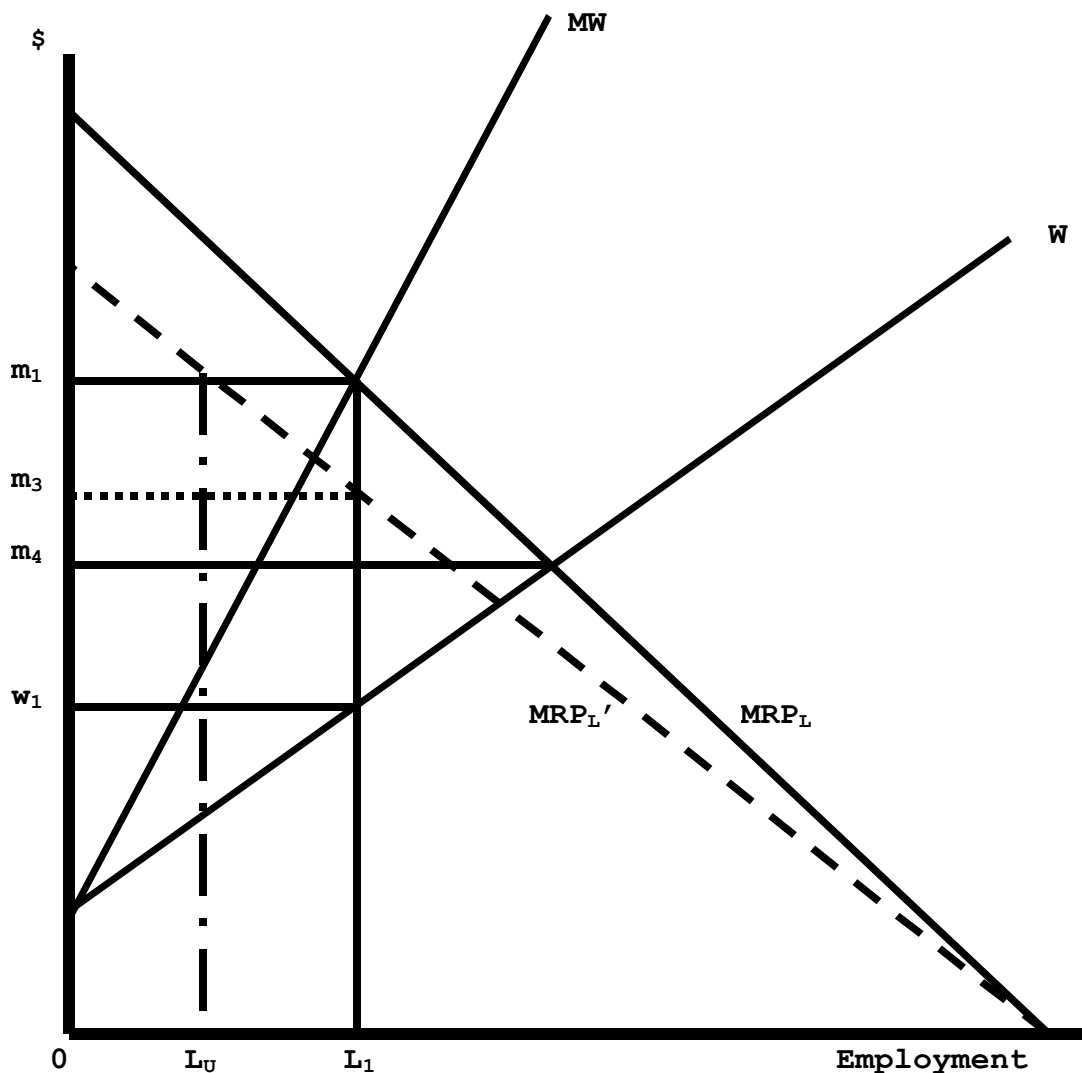
Paradox



**Downward nominal wage
rigidity stabilizes employment
(within a range)**

Monopsony, not demand=supply, is norm for “competitive” (nonunion) labor markets

Figure 6: Union Wage Setting With Demand Decline



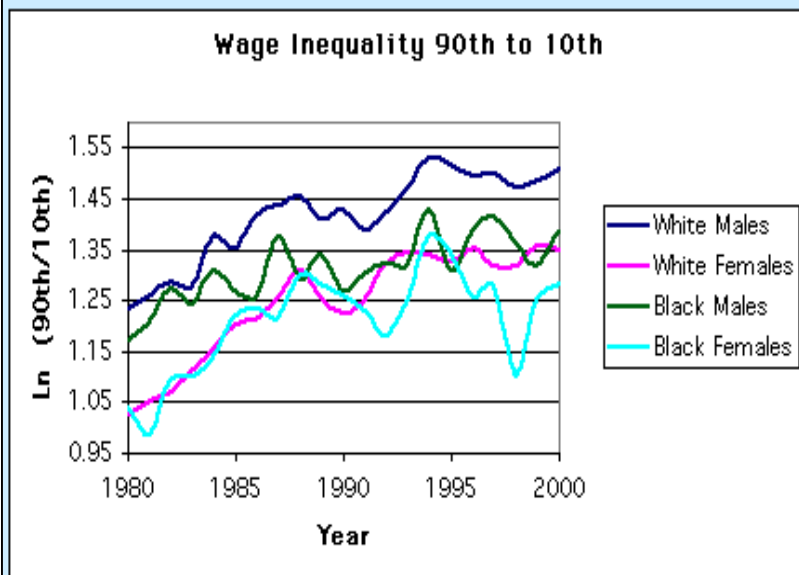
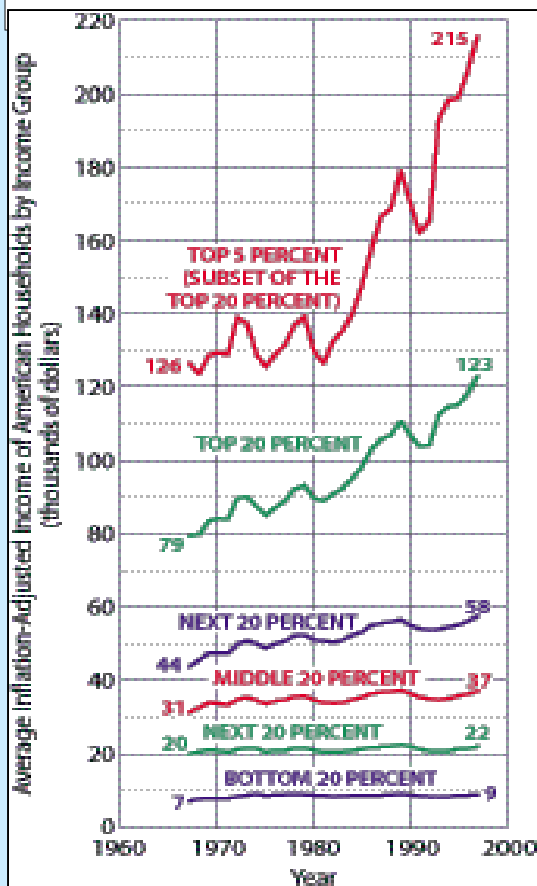
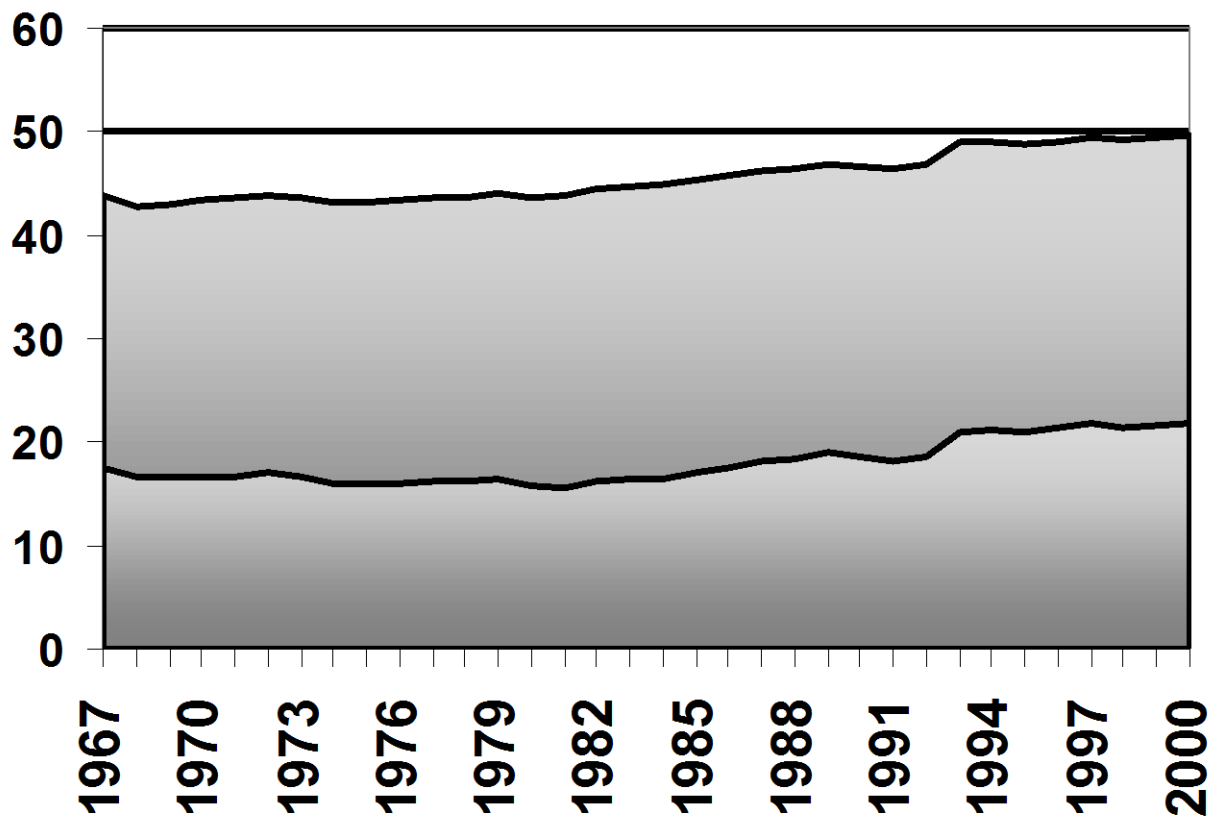
Union (influenced) labor market produces layoffs whenever demand declines

Monopsony Implications

- *Better macro performance
(Weitzman without Weitzman)
but...*
- *Reduced employee voice*
- *Questions of effect on income
distribution and inequality*
- *Issue of whether employment
relationship is really a mutual
bargain*
 - *Reduced coverage of health
insurance and defined-benefit
pensions*
 - *More contingency*

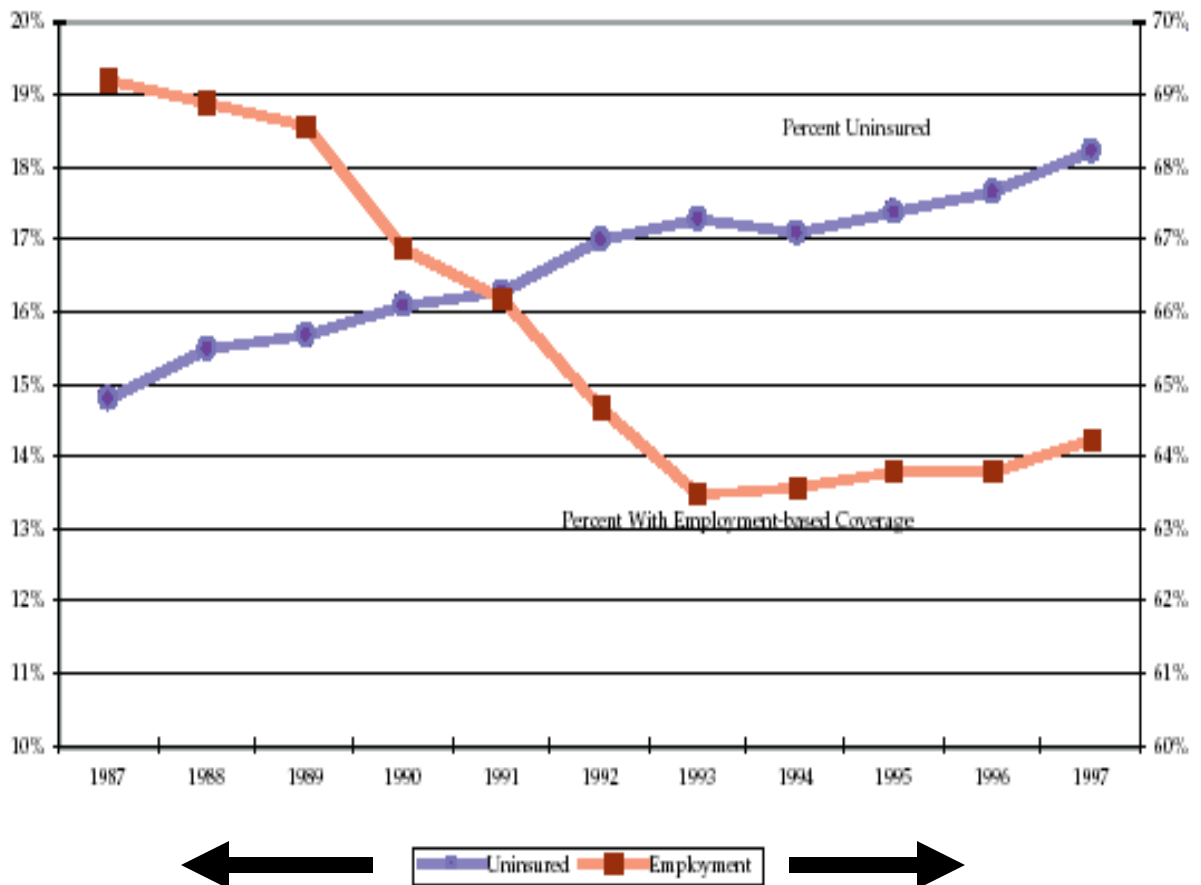


Percent of Income Going to Top 5% and Top 20% of Households





The number of uninsured Americans increased by 36% during the last decade

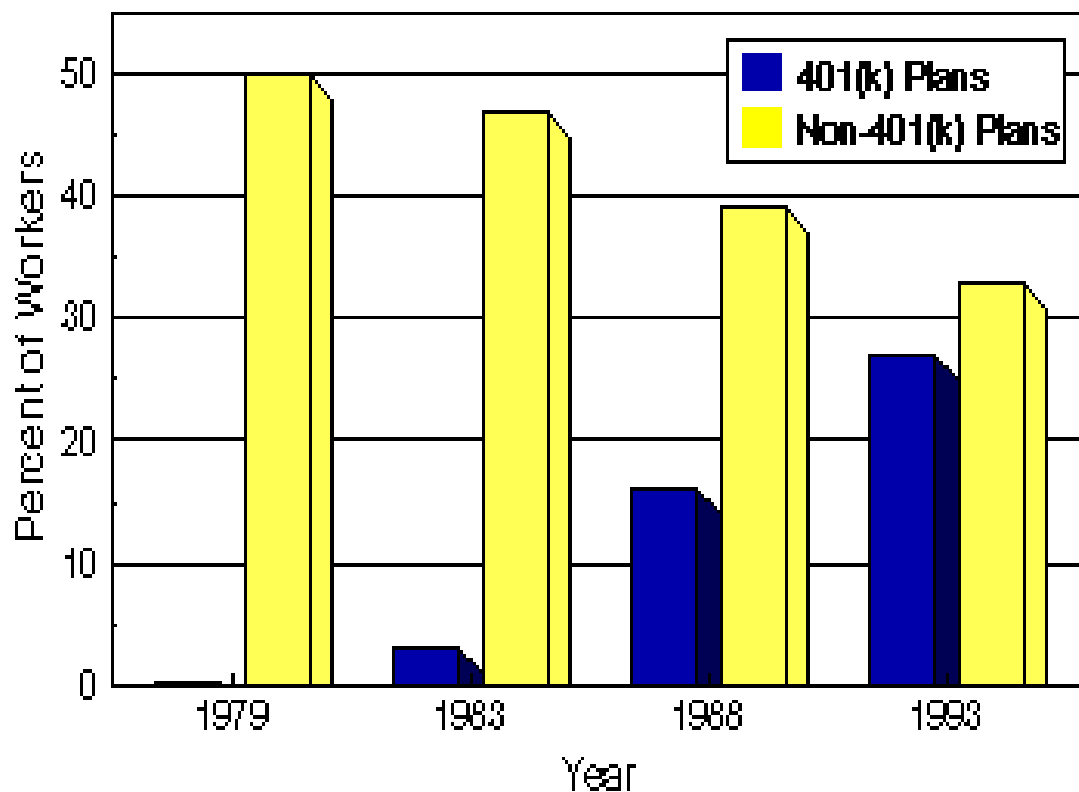


**Source: William S. Custer “Health Insurance Coverage and the Uninsured,” Health Insurance Association of America,
<http://www.hiaa.org/pubs/custerreport.pdf>**



"Before I forget, Detrick, here's the dental plan."

Erosion of Defined-Benefit Pension Plans in 1980s



Source: www.dol.gov/pwba/programs/opr/bluebook/b_.htm

Still loose ends



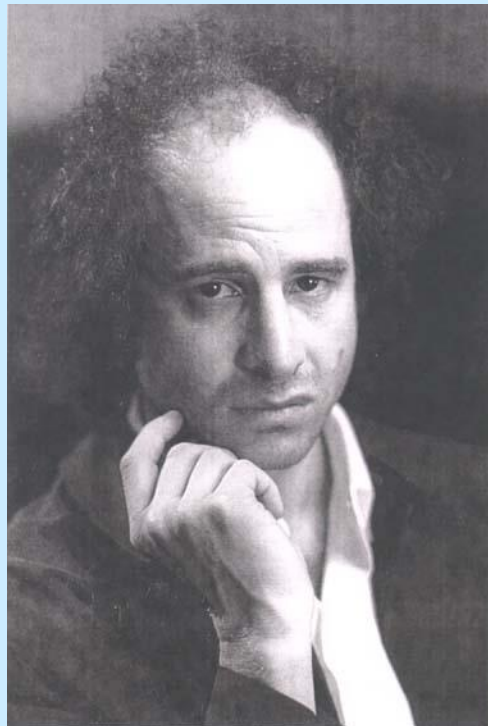
Example: *Experience abroad:*

- East Asian countries?***
- EU countries?***



**“You can’t have
everything. Where
would you put it?”**

Stephen Wright



Employer Ascendancy and Macro Performance: *Analysis and Alternatives*



**Daniel J.B. Mitchell
and**



Christopher L. Erickson